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**January 2018**

## **BREXIT: A TRAGEDY DECADES IN THE MAKING**

No one saw it coming. Not the pollsters who confidently predicted that British citizens would vote in favour of staying in the European Union; not prime minister David Cameron who – despite running a lacklustre campaign – did not instruct his government to make contingency plans for a possible EU exit; not financial markets who happily invested in British assets in the safe assumption that the referendum debate will soon become an unpleasant footnote to British political history. But on the morning of June 24, 2016, Europe awoke to the astonishing news that the UK had decided 52:48 per cent to leave the European Union. The truth is that Britain's relationship with its continental neighbours had always been characterised by conflicting interests and a fundamentally different understanding on how collaboration between European governments could best be achieved. The referendum to leave the EU was indeed a tragedy that was waiting to happen ever since the country joined in 1973.

### **The Awkward Partner**

Back in 1950, when the first tender shoots of European integration started to sprout, Britain was invited to join the nascent Coal and Steel Community. Alas, the governing (and very left-wing) Labour Party was in the process of nationalising key industries -

including coal and steel - and felt no desire to give up control to a supranational entity after finally succeeding in bringing these industries into public ownership. Just a couple of years later, in 1955, the UK once again snubbed efforts to unite the continent by leaving the Messina conference, which eventually set up the European Economic Community; the forerunner of the EU's Single Market. This reluctance to come on board seemed to a certain extent justifiable. After all, who could have predicted back then, that a project centring on the two arch enemies France and West Germany could ever succeed. Better then to rely on the special relationship with the United States, which had served the country so well during two world wars. And why trade with war-torn economies when the countries of the former empire, which after all were not affected by the European theatre of war, continued to provide vital markets across the globe. But this reasoning also revealed a certain feeling of superiority. Britain, albeit with massive financial and military support from the U.S. emerged victorious from World War II. Why then get together with the losers?

By 1960 however, British thinking had performed a U-turn. While the country emerged from years of austerity, growth rates on the continent were impressive and easily outclassed those in the UK. The feeling of superiority gave way to a sense of inferiority. A country that had won the war was about to lose the peace, augmented by the fact that the greatest Empire that the world had ever seen was in the process of being dismantled. But political circumstances were not on Britain's side. In the 1950s a great number of continental politicians argued that European integration would be incomplete without the participation of the British.<sup>1</sup> A decade later though, French president Charles de Gaulle regarded European integration as secondary to close bilateral ties between his country and Germany, and dismissed the UK as a 'American Trojan Horse' that would water down European ambitions. He twice vetoed Britain's application: in 1961 and then again in 1967. For the British public psyche this was indeed a strange development: first we don't want them, and now they don't want us.

It took a change in French politics and a staunchly pro-European UK prime minister to finally get the country into the union. Georges Pompidou replaced de Gaulle in 1969 and a year later Edward Heath led the Conservative Party into government. The stars were aligned for a speedy integration, and the UK joined in 1973. The pace of the negotiations was underlined by a mantra of 'get in now, and worry about policy consequences later'. But the haste with which integration was achieved would soon

backfire. Britain had previously started to drill for oil in the North Sea and given the precarious nature of the state's finances, the country was rather reluctant to share its new-found wealth with its European partners at preferential rates. Membership of the EU's Common Agricultural Policy resulted in higher food prices, because cheaper producers from New Zealand or Australia were no longer given easy access to UK markets, and were now replaced by more expensive European producers. The biggest bone of contention however was the UK's budget contribution.<sup>2</sup> While it was in line with that of other member states, the EU spent most of its budget on supporting farmers. But Britain only had a very small farming population, which meant that the country emerged as the biggest net contributor to the EU's finances. No wonder, with Heath losing the 1974 elections, the Labour government almost instantly called a referendum on whether to leave the EU merely two years after joining. Although the outcome was 2 to 1 in favour of staying, it left commentators on the continent bewildered by these conflicting and seemingly fluid identity messages. Staying outside of Europe was not good enough, but neither was joining the European project. It was, as if feelings of superiority and inferiority were forever conspiring to form a combustible political brew.

The 'Awkward Partner'<sup>3</sup> truly emerged with the arrival of Margaret Thatcher in Downing Street in 1979. As Education secretary in the Heath government, and subsequently as opposition leader she never shied away from beating the drum for European integration, once famously sporting a piece of fetching knit wear that proudly displayed the flags of the 9 individual member states. Once in power though her differences in opinion over how European collaboration could be achieved, and what European integration should, and more prominently should not entail became very pronounced. True, it was her government that emerged as the key proponent for the completion of the Single Market with the ratification of the Single European Act in 1986. But beyond this ground-breaking initiative, Thatcher was adamant that Europe should not develop a social dimension where workers' rights were regulated at European and not at national level. The disproportionate budget contribution was finally, yet acrimoniously settled in 1984 with the UK receiving a rebate which amounted to a pay-back, financed by the other member states of two thirds of the difference between the standard member state contribution and the funds earmarked for the UK. Any moves towards an erosion of national sovereignty, and the establishment of a European super state were vehemently opposed. Thatcher's antipathy towards

Economic and Monetary Union reached almost paranoid levels, while her crass and antagonistic diplomacy in the run-up to the Maastricht Treaty of 1992 eventually resulted in her being ousted from office by her own cabinet colleagues.

Thatcher's successor John Major found out to his disadvantage how Europe continued to divide public opinion and that of his own governing party. Major managed to negotiate an opt-out on Economic and Monetary Union (EMU), easily the most contentious policy of Maastricht, and to this day, the UK has not adopted the EU's single currency, the Euro. But this impressive achievement was more and more undermined by Eurosceptic voices within the media and the Conservative party which questioned the democratic credentials of the European project, and the loss of national sovereignty of an 'Ever Closer Union' set out by Maastricht. In the end, a deeply unpopular and divided government lost by a landslide in 1997 to be replaced by the much more Europhile Tony Blair.

Under New Labour, and for the first time since Thatcher's push for the completion of a true Single Market, the UK found itself at the centre of policy innovation. Stunned by the disintegration of Yugoslavia, European leaders had come to realise that without the military capacities of NATO and in particular the United States, an independent military engagement was next to impossible. It was Blair, together with French President Jacques Chirac who instigated the Rapid Reaction Force; a 50,000-strong army made up of national army units. Blair was also an outspoken advocate of EU expansion to the former communist countries of Central and Eastern Europe, and he sorted out the budget row on how to finance this so-called 'Big Bang enlargement' during the UK's tenure as the EU's presidency in the second half of 2005. In the end, the controversial participation in the war in Iraq in 2003 cut his premiership short, but for a brief period, Britain under Blair was very much the driving force of European integration.

A return to a more cautious approach came with the arrival of Blair's former chancellor Gordon Brown, who took over in 2007. Coinciding with the signing of the Lisbon Treaty in the same year, Brown argued that this major reorganisation of EU policies ought to be the last treaty for a long time. His government had also negotiated yet another opt-out from the recently introduced Charter of Fundamental rights. This apprehensive attitude came as little surprise, given that from early on, Brown had been very dismissive of EMU, arguing that the economic cycles of the UK and of its

continental partners were simply not aligned and thus a single currency would bear too much of a risk for the UK.

Brown's tenure as prime minister was short lived. The ramifications of the global economic crises resulted in a 2010 election loss to a coalition formed by the Conservative Party of David Cameron and the Liberal Democratic party under the leadership of Nick Clegg. Already in opposition, Cameron made several striking moves to please the Eurosceptic wing of the Conservatives. In 2009, he ordered his party colleagues in the European Parliament to leave the pro-European centre-right party grouping. As a result, instead of collaborating with MEPs from fellow conservative and Christian democratic parties, Tory politicians were now forming an alliance with occasionally rampant Europhobes. But more was to come. Public opinion in the UK, fuelled by often excessive media reports, continued to be more and more Eurosceptic. EU rebels within his own party kept diverting attention from pressing reforms and Cameron felt that his agenda of economic renewal, austerity and balancing the budget was hijacked by an ever-present insistence on cutting ties with the continent. Still, the announcement in January 2013 that the British people must 'have their say' with an in/out referendum took many commentators by surprise.

Cameron's tactics were vindicated by the election results to the European Parliament in June 2014. UKIP, the United Kingdom Independence Party under the charismatic and populist leadership of Nigel Farage came out on top in the polls with the Conservatives a distant third. Anti-EU backbenchers in Cameron's party continued to be ever more vocal, and the prime minister, with some justification, feared that the upcoming national elections of 2015 might result in significant electoral losses with UKIP potentially outflanking the Tories on the right with an anti-EU and anti-immigration rhetoric. Cameron was not an outright Eurosceptic, but he held strong views that EU integration, and in particular the recent migration waves from many Central and Eastern European countries imposed vast and fast economic and cultural changes which many UK communities struggled to cope with. His aim to bring immigration down to the tens of thousands from the current 200 to 300 thousand was doomed to failure given the EU's single market and its cornerstone of a free movement of people, which allowed workers, but also students and pensioners, in fact, anyone holding an EU passport to settle on British shores. So, he rolled the dice, announcing

to the British people that he would re-negotiate the UK's membership terms with a subsequent referendum on those new terms scheduled for 2016.

Looking at those new terms however, one cannot but feel distinctly underwhelmed. Cameron set his sights on benefit tourism, where EU citizens from countries with less advanced welfare systems settled in the UK to receive more generous social allowances. To fend off any potential welfare scroungers, Cameron negotiated a 4-year period during which no social benefits at all were given to recent EU migrants, thereby in fact treating fellow Europeans as second-class citizens; an astonishing concession given to him by the other member states. More reasonably, child benefit to EU migrants could now only be claimed when the dependants in question were also residing in the UK. Cameron also received assurances that those countries which so far have not adopted the Euro (Poland, the Czech Republic, Hungary, Bulgaria, Romania, and Croatia), or which had negotiated a Euro opt-out (apart from the UK, this also applied to Denmark and Sweden) ought not to be disadvantaged by any developments emanating from reforms of the Single Market. On a final note, Cameron also reiterated his refusal to sign up to an 'Ever Closer Union' – a rather empty rhetoric that pandered to the anti-EU wing of his party, as any moves towards more federalism would in any case require the approval of every individual member state, thus giving the UK a de-facto veto power.

But that was it. What was heralded as a major re-negotiation of EU membership did not address the fundamental issue that gave such prominent rise to anti EU feelings amongst the UK electorate. Ever since 2004, when the EU welcomed eight countries from Central and Eastern Europe, the UK has seen the arrival of around 1.5 million EU migrants<sup>4</sup>. Yes, such numbers were great news for the economy. GDP growth was impressive, productivity went up, skill gaps were closed, and inflation was under control. All this against the backdrop of unemployment figures that were highly favourable when compared with the likes of France or Italy.<sup>5</sup> But many people were also astonished by the speed of change that migration brought. While Britain had a long history of integrating migrants, there was now a sizeable number of citizens who found themselves on the losing side of an ever more Europeanised and globalised economy. In migration hot spots, such as in cities in southern and central England, or in rural areas with large agricultural businesses, people realised that their wages did not improve and public services – from schools to hospitals and day care centres – were stretched to

bursting. But even in areas without any significant migration pressures, a fervent media stirred up notions of discontent and the UK witnessed the recurrence of a strange social phenomena: that of xenophobia despite and the absence of foreigners.

**Table 1.1 UK Prime Ministers and Attitudes towards EU Integration**

<b>Support</b>	<b>Opposition</b>
Cohesion (Heath, Blair)	Federalism (All)
Single Market (Thatcher)	Budget Increases (All)
Enlargement to Central and Eastern Europe (Blair)	Agriculture (All)
Foreign Policy (Blair)	Single Currency (Thatcher, Brown, Cameron)
	Social Europe (Thatcher, Brown, Cameron)

Reflecting on over forty years of EU membership, the accolade of the ‘Awkward Partner’ has a certain truth to it. Several UK governments had fundamentally different conceptions of how EU integration ought to be organised and what kind of Europe should be established. All prime ministers, from Harold Wilson (1974 – 76) to David Cameron (2010 – 2016) resisted any developments toward a more federal Europe that could one day become a European super state along the lines of the United States of America. Discussions about potential increases in financial contributions, and in particular the perennially controversial Common Agricultural Policy, were met with fierce resistance. What the UK essentially aimed for was a glorified trading union with easy market access, coupled with political cooperation, not necessarily through the EU but potentially merely through bilateral collaboration, in such vital areas as security, defence or foreign policy. For most of the political establishment, this was as far as the UK’s European ambitions could be stretched. On the other hand, giving up sovereignty on social policies, the welfare state, or on military capacities and a foreign policy that would replace their national equivalents, or indeed on a European bureaucracy with far reaching powers over national governments and with a substantial budget were viewed essentially as attacks on the UK’s national interest. One must remember that the UK was a European country that left World War II with a sense of pride and even achievement, and thus with a notion of moral superiority. Allot of continental countries however were invaded or in the case of Central and Eastern Europe, colonised by

communism. The belief that the post war era should therefore aim for a radical departure from the status quo to avoid such economic, political and human catastrophes from ever happening again, never gained traction within the UK's public discourse. The country's entry in 1973 was the reluctant admission that from an economic perspective, the EU had much to show for. The rationale for a political union though escaped most members of the political establishment.

Nonetheless, the 'Awkward Partner' was instrumental in many policy innovations and on certain occasions, helped to shape the union into a more integrated entity. Thatcher's government was the driving force in the eventual implementation of the Single Market and its associated free movements of goods, services, capital and people. Agreed in the 1950s it was for thirty years undermined by national derogations, and it took a forceful UK prime minister to finally help create a truly European economic sphere. On a less spectacular but nonetheless decisive level, the EU's regional policy would not have kicked off without the UK's insistence upon the country's accession in 1973. Any Tony Blair's role in shaping the EU's post-Cold War era – from the push toward a sweeping enlargement to Central and Eastern Europe to a budget overhaul, and on to a more pro-active foreign policy made him during his tenure the biggest catalyst for integration amongst all his fellow European leaders. The 'Awkward Partner' was on occasion surprisingly collaborative.

Looking at voting records at EU level also reveals a picture that is far less anti-EU, than the referendum campaign made people believe.<sup>6</sup> True, in the Council of Ministers which consists of representatives from all national governments and together with the European Parliament passes EU legislation, the UK was on the 'losing side' of legislative initiatives the most times. The figures reveal a marked jump: from 2.6% between 2004 and 2009 (the Blair/Brown years) to a staggering 12.3% between 2010 and 2015 (the Cameron years). In contrast, the second most outvoted countries (Austria and Germany) found themselves on the losing side only on 5.4% of occasions during the Cameron period. Viewed from a different perspective though, this also means that the UK supported 97.4% of EU legislation between 2004 and 2009 and still 87.7% between 2010 and 2015. The image of a country that was forced to participate in a union that aimed for fundamentally different objectives which ran counter to the British national interest is therefore incorrect.



## **The Referendum Campaign**

What is Euroscepticism? The answer of course depends on a suitable definition. It is the professional responsibility of academics, authors, journalists and other commentators to highlight the shortcomings, challenges and pitfalls of the European integration project, just like an American scholar might highlight certain inadequacies in the political system of the US. But does that turn those people into “DC sceptics?” From this perspective, practically every citizen in Europe could be classified as a Eurosceptic. If one’s understanding of Euroscepticism, however, involves the belief that the interests of your country are best served by leaving the EU, then not everyone might subscribe to such a definition.

This was the choice facing the British electorate on June 23, 2016. What type of a Eurosceptic are you? The one who thought that sovereignty was a zero-sum game and the more the EU was organizing and controlling British lives, the less British citizens were in control of their own destiny? The one who worried that a coherent notion of democracy is severely curtailed by the power of unelected Brussels officials? The one who believed that European integration and the institutions and policies that it had created over the last 75 years had failed and that being a member of the EU no longer served the national interest? Or the one who felt that despite the many shortcomings of the EU, 21<sup>st</sup> century challenges could only be met through multi-lateral cooperation? The one who thinks that the loss of national sovereignty is more than compensated by the sharing of sovereignty with your European neighbours? The one who believed that relinquishing a degree of national autonomy might still serve the national interest best? Or the one who felt that being a European means more than consuming French wine or holidaying in Spain, but instead requires a formalised and structured way of interacting with other states, and their citizens.

Ever since David Cameron announced the date of the referendum in January 2013, there were feverish discussions in parliament, in the media, and amongst voters. The government, except for a handful of cabinet members (including Minister for Justice Michael Gove), was arguing in favor of staying. So were the Liberal Democratic Party and the Green Party. Most businesses also supported Cameron’s cause. As to the Labour Party, the recently elected leader Jeremy Corbyn and his Shadow Chancellor

John McDonnell throughout their careers had argued that the EU favours big business, and although Corbyn campaigned for ‘Remain’, his support was at best lukewarm, and at worst non-existent.<sup>7</sup> More prominently, the ‘Leave’ campaign relied to a large extent on former London Mayor Boris Johnson; easily the most charismatic UK politician with a huge support base amongst Conservative voters. The majority of mainstream politicians organised themselves under an umbrella organisation called ‘Vote Leave’ and refused to collaborate with the United Kingdom Independence Party. UKIP had for years campaigned for an EU referendum, and subsequently started its own ‘Leave.EU’ campaign with leader Nigel Farage putting every ounce of his considerable rhetoric skills into what he believed to be an historic opportunity.

The concessions which Cameron secured from his European partners in the run-up to the campaign were almost immaterial to the public debate. Some changes to welfare claims of EU migrants, an assurance that countries who opted out of the continent’s single currency will not be discriminated against, and a commitment towards a more competitive European single market made virtually no impact on voters’ perception. What was at stake was an overall assessment of the country’s relationship towards Europe. The ‘Remain’ camp stressed economics: the fact that the UK could influence the regulation of Europe’s Single Market and could freely trade with its 500 million consumers. Leaving this market would result in job losses and a massive fall in prosperity levels. Finance Minister George Osborne turned the rhetorical screws even tighter by announcing that a ‘Leave’ vote would result in an immediate budget adjustment to account for the subsequent loss in government revenue caused by lower economic output and less foreign investment. In short, the EU might not be perfect, but it was certainly preferential to the uncertainties of a Brexit Britain leaving the EU. But the scaremongering rhetoric of the government, as well as of some business leaders and the Bank of England was completely overblown. Yes, given the drastic restructuring of the British economy that Brexit would necessitate, economic indicators such as GDP growth, employment levels or tax revenues would certainly be affected. But the scenario of an economic Armageddon that would transport Britain back into the stone age started to look ludicrous, and only heightened the belief amongst certain voters, that the government was not to be trusted. No wonder the ‘Leave’ campaign was mocking its counterpart by referring to it as ‘Project Fear’.

Responding to this rhetorical swipe, ‘Remain’ argued that its case for staying in the EU was more about ‘Project Fact’. And indeed, Brexiteers failed conspicuously to paint a concrete picture of what an independent UK would look like. Some preferred the ‘Norwegian’ option; being a part of the EU’s Single Market without being a member of the EU. While such an approach might have freed a country from the political subordination to Brussels, meeting Single Market regulations that were only set by EU members would most certainly have resulted in a loss of economic sovereignty. Hence, the ‘Canada’ option was frequently mentioned: being outside of, but negotiating trade deals with the EU on an ad-hoc basis, as a free trader, guided by bi-lateral trade deals that were complemented by the rulebook of the World Trade Organization. Unfortunately, while trading inside the EU’s Single Market came tariff free, the same did not apply to free traders and other WTO members where, depending on the type of product or service and the volume of trade, tariffs and customs duties are being charged. Not a problem, said the Brexiteers. These increased costs would be more than compensated by the fact that the UK would now be free to negotiate its own trade deals and would not have to collaborate with EU countries on reaching agreements with the likes of China, India, and other emerging economies. As a result, new trade deals would be more in line with the UK’s economic strengths, and independent from the trade agenda of the likes of France and Germany. There was, however, a significant level of doubt whether such a calculation would result in a net gain. After all, the EU is a powerhouse when it comes to world trade and thus has significant negotiation leverage; something that the UK might struggle or even fail to achieve when going it alone.

Given the difficulties in establishing an economic case for Brexit, political arguments relating to national sovereignty featured prominently within the ‘Leave’ camp. And here the Brexiteers had a case. After all, while new EU treaties (as well as the accession of new members) must be agreed unanimously by all member states, the large majority of EU legislation now only requires the approval of a majority of states (55 per cent that represent at least 65 per cent of the total EU population) as well as a majority of EU parliamentarians. This means that countries no longer have a veto, and on occasion, must accept what others have decided. By being part of the EU, a country has given up a certain degree of national sovereignty. On the other hand, leaving the EU would also mean a loss of shared sovereignty. On occasion you will be overruled, but in other instances, your own view, once it has the support of most of EU countries,

might be superimposed on others. In any case, the question of national sovereignty is greatly compromised by the way the world works in the 21<sup>st</sup> century. The Empire was no longer, and the days when Britain was a global power had long faded into a distant memory. Moreover, there isn't a single European country that could call the shots when dealing with Russia, China, or the US. Collaboratively though, the EU still has a voice in international affairs. Any notion of a perceived increase in national sovereignty outside the EU should have taken these matters into account.

**Table 1.2: Key points of the Referendum Campaign**

'Remain'	'Leave'
Project Fear	Project Hope
Negative Campaigning	Take Back Control
Economic Certainty	Global Britain
Security in Fight against Terrorism	National Sovereignty
Economic Armageddon	Democracy
Little Mentioning of EU achievements	Stem Flow of Migration

Every now and then 'Remain' also highlighted security concerns from IS terrorism, as well as migration waves from the Middle East and Africa, which could only properly be addressed through a pan-European approach. This was a precarious strategy. London and Paris had just been the subjects of terrorist attacks, and images of the summer of 2015 when waves of refugees crossed the continent to escape the conflict in Syria were still fresh in the mind of many voters. 'Leave.EU' further fuelled tensions when Nigel Farage posed in front of a large poster depicting a line of refugees and migrants under the headline of 'Breaking Point: the EU has failed us all'. Disregarding the fact that the civil war in Syria was not caused by the EU, Farage then claimed that further EU enlargement to such countries as Turkey or Serbia would result in further mass migration to the EU. Irrespective of the fact the EU enlargement and the refugee crisis are two separate matters, Farage kept silent about the fact that the integration of Turkey and Serbia was many years if not decades away, and that in any case, every EU member state including the UK had the right to veto such a move. Farage opportunistically stoked up xenophobic sentiments, but the image of a Britain overcrowded with refugees stuck in the mind of many voters.<sup>8</sup>

‘Don’t you like democracy?’, historian Simon Schama was asked by the crime writer and ‘Leave’ supporter Dreda Say Mitchell during yet another television debate just days before the referendum. The distinguished academic offered an answer suitable to his profession by concentrating on the intricate institutional structures of Brussels, but his opponent was able to bring the vital point across: that the EU is bad for democracy, that unelected officials determine the destiny of every EU member state, and that the umbilical cord between citizens and their elected representatives was severed because of too much European integration. This was powerful stuff and arguments over a loss of national sovereignty were the strongest points for ‘Leave’. Nigel Farage was not alone in wanting ‘our country back’ and many people agreed.

On the other hand, an improvement of the state of democracy could easily have been achieved by constitutional improvements that were long overdue. An unelected House of Lords, an electoral system that disproportionately benefits larger parties and disregards the votes for smaller ones<sup>9</sup>, or the lack of representation for English regions are just some of the shortcomings that make the country less democratic. Also, comparing the EU with any other national polity is comparing apples with oranges. The EU is a vehicle of integration and collaboration between countries, and not a super state along the lines of the United States. Yes, it certainly has its democratic shortcomings, but successive treaties have strengthened the role of the European Parliament, while checks and balances carried out by the member states to curb some of the legislative and executive enthusiasm of the Brussels bureaucracy had been strengthened over the years. It is uneven to compare the EU with a nation state. A comparison with an international organisation would be more appropriate, and from this perspective, the EU has made significant democratic strides, unlike the OECD, the International Monetary Fund, the World Bank, or United Nations for example, where the involvement of citizens is all but absent.

The image that best captured the demand for a return of national sovereignty was the ‘Vote Leave’ campaign’s tour bus which proudly sported the slogan ‘We send the EU £350 million a week. Let’s fund our NHS instead’. Here was the headline grabbing financial conundrum of EU membership. Instead of funding vital domestic causes such as the National Health Service, the UK instead was paying an outrageous sum to a Brussels’ bureaucracy that spent UK taxpayer’s money according to their own objectives. However, the day after the referendum, journalists asked leading Brexiteers

when and how the money will be pumped into the NHS. To the consternation of many, not a single politician was willing to take up the pledge, and indeed it was unceremoniously dumped by Cameron’s successor Theresa May. The figure of £350 million per week also requires further clarification. It is true that the UK paid about £18 billion per year into the EU budget (or £350 million per week). This is the price of EU membership and every member state, not just the UK, contributes to European integration. But what ‘Vote Leave’ failed to mention was that around 50 per cent of that money went back into the UK to support farmers, poorer UK regions or science. Hence, not only did the slogan raise false hopes for the financial consolidation of a much-loved UK institution, the claim was simply untrue and deceiving, but managed to bring a vital point across: that of an expensive and wasteful EU bureaucracy that prevented UK citizens from shaping their own destiny.

**Table 1.3: Foreign Born Population in EU countries in 2016 (in per cent)<sup>10</sup>**

Top Eight		Bottom Eight	
Luxembourg	45.2	Portugal	
Cyprus	20.4	Finland	6.0
Austria	18.2	Hungary	5.1
Sweden	17.0	Lithuania	4.5
Ireland	16.9	Czech Republic	4.1
Belgium	16.3	Slovakia	3.3
Germany	13.3	Romania	1.8
United Kingdom	13.0	Poland	1.6

Source: Eurostat, March 2017

Beyond money and national sovereignty ‘Leave’ also was able to win sympathy amongst many voters who felt that the pace of change caused by EU migration was too fast. Ever since the ‘Big Bang’ Enlargement of 2004, the UK accommodated waves of citizens from other EU countries who settled in Britain, taking advantage of one of the founding principles of the European Union: the free movement of people. By the time of the referendum, the UK’s population continued to grow at a significant rate: from 65 million to a predicted 75 million by 2050, with around two-thirds of the population increase attributed to EU migration. As a small island, Britain would have found it very

difficult to absorb and integrate that many people. Overcrowded schools and hospitals and a continued housing shortage were cited, as were concerns about the national cultural character, where in the words of Nigel Farage, in some parts of many British cities, English was no longer spoken. These sentiments were not new. In fact, they went back to a debate that the UK had in the late 1960s when leading Conservative politician Enoch Powell called for compulsory expatriation. Fifty years later, these issues also found resonance in France, Germany, and the Netherlands. But as far as numbers were concerned, only one-eighth of UK residents were born abroad, which didn't even make the country the most multi-cultural place in Europe. Mainstream politicians often ridiculed this perceived xenophobia and racism, which did not foster a productive debate about a cultural sense of belonging. Lamenting the rapid pace of change, the influx of new cultural, social and political norms was not necessarily racism. It could also merely have been a concern about fundamental changes to one's way of life.

In arguing the case for 'Remain', Cameron relied on his election advisor Lynton Crosby who in the past had become notorious for his negative campaign style. In the referendum on Scottish independence in September 2004 this worked well, and a significant number of voters were swayed to remain in the United Kingdom for fear of the economic uncertainties surrounding the creation of an independent Scottish state. This tactic also worked in the general elections of May 2015 when Cameron warned of a 'coalition of chaos' fronted by Labour leader Ed Miliband. But it backfired in the London Mayor poll of May 2016 when many voters were appalled by the often-racist attacks of the Conservative candidate Zac Goldsmith who had linked the eventual winner Sadiq Khan, a senior Labour politician with Pakistani roots to alleged Islamic extremists<sup>11</sup>. During the EU referendum campaign, it was simply astonishing that Cameron once again relied on Crosby's tactics by establishing a horror scenario of what the UK would look like outside the EU. Positive or affirmative messages of a Britain inside the union, of the EU's past achievements were almost completely absent. But achievements there were: bringing prosperity to Europe, unifying the continent after the Cold War, offering a mechanism to establish democratic stability for previously autocratic regimes, being capable of handling 21<sup>st</sup> century challenges such as global warming or terrorism, arguably better than national governments. In the end, Cameron's team merely portrayed EU membership as the lesser evil.

The government never contemplated the possibility of losing the referendum and Cameron simply did not have a Plan B. Government departments, ministers, or the Conservative Party hierarchy did not draw up plans of what type of Brexit should be negotiated in case ‘Leave’ won. Steps that ought to be taken to assure the markets, time lines for negotiations, the identification of negotiation positions on contentious issues such as Gibraltar, the border with the Republic of Ireland, the role of the City of London as the most powerful seat of finance in the EU, the introduction of additional border and custom controls or the provision of budget contingencies – the list goes on and on, but nothing of that sort was planned for a potential D-Day. In the end, Cameron cast a tragic-comical figure when announcing his resignation just hours after the results came through, leaving not only his party but an entire country utterly unprepared for the monumental challenges that lie ahead. This moment outside his residency in Downing Street on the morning of June 24, 2017 will forever define his six years at the helm of the UK government: a moment of defeat tinged by an underlying current of arrogance and complacency. Months later, when touring the US lecture circuit, a journalist asked how he slept at night. ‘Like a baby’, responded Cameron. ‘I wake up every hour and cry for my mum’. At least he maintained his sense of humour; something that cannot be said of his political credibility.

Britain had always justifiably been proud of its political culture: an inquisitive, scrutinising and by and large trust-worthy media, a well-informed public, politicians willing to engage with voters, and a general discourse that treasures public debate and allows for the exchange of arguments. Not on this occasion. For a start, knowledge of European affairs was surprisingly patchy, not only amongst the public but also amongst senior political figures. Whilst watching television debates and reading news reports in the runup to referendum day, one cannot but have felt astonished by the fabrications of some members of the political establishment – whether on the ‘Leave’ or the ‘Remain’ side.<sup>12</sup> The case of Andrea Leadsom was remarkable. With Cameron’s resignation, she emerged as one of two front runners for the leadership of the Conservative Party, which would have turned her into the UK’s prime minister. In the aftermath of the referendum, Leadsom suggested that Britain should leave the EU straight away, thereby showing a complete lack of appreciation of how EU rules (over 200,000 pages of them) are instrumental to the organisation and functioning of a country. One might not like some of the rules, but first one might want to assess the consequences of those rules, and



subsequently one might want to replace them with own rules to prevent a certain degree of anarchy. Under Leadsom's scenario, no air passenger or indeed airline would have had any legal recourse upon leaving EU air space and entering that of the UK. One would very much doubt whether airlines at all would be willing to take such legal risks, which would have resulted in the grounding of air traffic. Or think of the poor people of Dover, Britain's busiest port. Instead of enjoying the free movement of goods, trucks now would have to be thoroughly inspected by custom officials (who given their increased work load would also have been severely understaffed), resulting in mile-long tailbacks. Entire supply chains would have been interrupted, with dramatic consequences for food supply or the production of manufactured goods. The country can be grateful when Leadsom's leadership ambitions came to a merciful end, prompted by less than fortunate remarks when she stated that having children made her a better candidate to be prime minister.<sup>13</sup> This paved the way for the childless Theresa May to become the unopposed leader of the Conservative Party.<sup>14</sup> Countries deserve more responsible and knowledgeable politicians than Andrea Leadsom.

If knowledge on EU affairs was on occasion found wanting amongst the political class, it comes as little surprise that the general public at times also struggled to comprehend fully the pros and cons of EU membership. Granted, European integration can be a fickle, complicated, confusing, abstract and technocratic business, but the union's history, politics, or economics were not taught at UK schools. Here, education on Europe often ended with World War II. Unlike in other member states, news reporting on EU matters stood in marked contrast to the impact that the EU had on domestic life. While members of the European parliament in Italy, France or Germany could regularly be seen on TV channels, only conservative MEP Daniel Hannan and – of course - UKIP MEP Nigel Farage were known to the wider public. In the run-up to the referendum, speculation of what the EU does (and succinctly what it does not do) was rampant, and real knowledge rather thin on the ground. The Brexit vote was therefore often a vote on one's assessment of life in general. If your wages were too low, if government was not listening, if the National Health Service was underperforming, if jobs were hard to come by, the EU found itself an easy target for one's frustration.<sup>15</sup>

Amidst all this hyperbole of speculation, false information from both sides was all too prevalent. The media and in particular the BBC, the presumed bastion of

accountability and public service had much to answer for. During what seemed endless TV or radio debates, the corporation's journalists were keen to avoid taking sides. This is of course laudable, but being neutral does not mean that lies should be left unchallenged. And this is precisely what happened all too often, thus only further augmenting the lack of reliable facts. A one-on-one interview granted to Brexiteer and justice secretary Michael Gove summed up the mode of the campaign. When confronted by Sky News journalist Faisal Islam with an exhaustive list of organisations that supported 'Remain', Gove responded by claiming that the British people 'have had enough of experts'. This was an extraordinary comment, especially when considering Gove's former role as education secretary, where he surely appreciated the importance of expertise and inquisitive analysis.<sup>16</sup>

### **The Referendum Results**

A week before the vote, Nigel Farage, with an air of restrained confidence, announced that 'Leave' might just win it. To the amazement of the financial markets, political leaders and commentators he was right: 51.89% versus 48.11% with a voter turnout of 72.2%. But regional differences were sharp. In Scotland 62% voted 'Remain'. Northern Ireland too voted in favour of the EU (56%). On the other hand, England (53%) and Wales (52%) wanted out. Age was also a highly defining factor. Amongst the younger group of voters (those aged between 18 and 24), a staggering 75% supported 'Remain'. In contrast, 61% of older voters over the age of 65 wanted nothing to do with the EU. Education levels were equally decisive. Of those with a university degree, 71% supported 'Remain'. Amongst those with a high school degree as their highest academic attainment, 68% wanted out. Socio-economic factors could also not be discounted. For statistical purposes, the UK population can be organised into five categories ranging from A (the highest class) to E (the lowest). Here too, one could find a clear trend in that the lower your class, the higher the likelihood for opting out of the EU. Of the top 50 areas, with the highest DE concentration, only 3 (London, Liverpool and Leicester) voted 'Remain'. Equally telling, almost all areas that had more than 30%

non-UK born residents supported the EU, indicating that the more culturally diverse one's life experience, the more favourable one's stance towards EU integration.

The referendum results threw up many legitimacy questions. The United Kingdom, as the name suggests, is a union made up of four distinct nations: those of Scotland, England, Wales, as well as Irish contingent living in Northern Ireland.<sup>17</sup> A union ought to represent the wishes of its constituent parts. Yet, two of the four nations of the UK now found their political will fundamentally compromised by the UK-wide referendum. It therefore came as little surprise that Scotland's First Minister and Leader of the Scottish National Party Nicola Sturgeon instantly resurrected the possibility of a new Scottish referendum on independence which would allow the country to stay in the EU. As of 2018, the issue is not off the table, but only postponed until the precise nature of the Brexit deal becomes apparent.

Londoners too, found that the vote on Brexit ran counter to their beliefs. 60 per cent of UK citizens living in London voted 'Remain'. However, the city has by far the largest concentration of foreigners of any place in the UK, and in 2015, 36.8% of its population were foreign born. Given that a very high number of this contingent was not eligible to vote, because they were not UK citizens, and assuming that most appreciated the benefits that EU membership bestows on non-nationals, one can safely state that close to three quarters of people living in London were against Brexit.

**Table 1.4: Referendum Results**

UK wide	52% leave
Scotland	62% remain
Northern Ireland	56% remain
England	53% leave
Wales	52% leave

*The lower the education level the more 'leave'*  
*The lower the social-economic class, the more 'leave'*  
*The less multi-cultural environment, the more 'leave'*  
*The older the voter, the more 'leave'*

The situation became even more delicate in Northern Ireland. Here, the Good Friday Agreement of 1998 brought an end to thirty years of violence between British Protestants and Irish Catholics. In the aftermath of the referendum, constitutional

experts were clear that Brexit would compromise the Agreement as one guarantor country (the UK) would now be out of the EU, while the other (the Republic of Ireland) would remain. This would make a cross border collaboration as enshrined by the agreement very difficult, and as such ‘Good Friday’ might lose its constitutional validity, thus requiring a further referendum which could ultimately lead to Northern Ireland joining the Republic in the South.

If this was not damaging enough, constitutional commentators were aghast at the low referendum threshold, that Cameron had agreed upon. He merely decreed that whichever side secured most votes would win the referendum. But referendum questions of such utmost and historical importance usually come with extra caveats in order to make sure that a populace is certain of the new direction that a country is embarking on and thus, referendums ought to avoid cementing a fluctuating state of opinions that could easily have a different outcome when asked a week later or in different meteoric conditions.<sup>18</sup> As such, some referendums, for instance the one held to finalise the independence of Montenegro from Yugoslavia in 2006 simply raised the threshold to 60% of votes. ‘Leave’ did not come anywhere near that figure. Another example is provided by the first referendum on Scottish devolution in 1979. Here the UK government stated that not only the majority of votes, but also at least 40% of registered voters had to pass that motion. Hence, although most Scottish votes were in favour of devolution, only 64% of registered voters turned out, and only 33% voted in favour. Under this formula, a simple calculation reveals that the Brexit vote only accounted for 37.46% of the registered electorate; little more than a third, thus hardly showing an overall large majority. David Davis – Brexit secretary frequently referred to the fact that the vote to leave the EU represented the biggest [absolute] popular vote in the history of the United Kingdom. He conveniently forgot to mention that remaining in the EU was the second biggest of such votes ever recorded. In the end, the UK embarked on potentially the most far-reaching transformation process the country had ever witnessed, based not on crystal-clear support from its electorate but on a momentary assessment of its mood.

## **Brexit means Brexit: but what does Brexit mean?**

With Cameron's resignation in the immediate aftermath of the referendum, the Conservative Party needed to elect a new leader who would then automatically assume the premiership and define the Brexit process. Given the outcome of the vote, it seemed only logical, that a 'Leave' supporter would assume this mantle. Yet one by one, leading Brexiteers – from former London Mayor Boris Johnson to the Justice Minister Michael Gove could not garner enough support amongst their Conservative parliamentary colleagues. In the end, it was the tacit 'Remain' supporter and Home Secretary Theresa May who won the race. May seemed a safe pair of hands largely because of her competent track record in Cameron's government. And indeed, she promised 'strong and stable leadership' and formed a Cabinet that included prominent Brexiteers: Johnson became Foreign Secretary, Gove was given the environment portfolio, while the crucial role of Brexit Minister was handed to the outspoken Eurosceptic David Davis, with the former Conservative Party Chairman and prominent right winger Liam Fox responsible for working on trade relations in the post-EU world.

But what type of Brexit wanted May to pursue? The referendum had merely asked the British people whether they would like to remain or leave the EU, but did not mention at all what kind of relationship the country would like to establish with its erstwhile partners. During the campaign, it was very easy to identify what you were exiting from, but now it was much more difficult to pinpoint what you are exiting towards. May's rhetoric did not help as she kept referring to 'Brexit means Brexit', without clarifying further what type of divorce deal she was embarking upon. Her speeches were often vacuous, exemplified by her aim to see through a 'red, white and blue Brexit' (the colours of the UK flag).

Over the course of the summer of 2016, government ministers and EU hardliners within the Conservative Party started to fill the void. Instead of a 'soft' Brexit, which would have allowed for a continued membership of the EU's, flagship policy the Single Market, more and more red lines emerged. May insisted that the free movement of people needed to be stopped, since the large migration waves of EU citizens to the UK over the recent decade was with some justification interpreted as one of the reasons why people expressed such strong EU aversions. Leaving the jurisdiction of the European Court of Justice and thus regaining a substantial degree of national

sovereignty was also regarded as instrumental, as was the reduction, if not total elimination of any contributions to the EU's budget. Hence, the interpretation of the referendum result was to 'take back control' of its borders, of its budget and of its sovereignty; a 'hard' Brexit indeed. May and Davis intended to pass a very complex and in-depth legislative agenda without much parliamentary scrutiny, arguing that the referendum vote had given the government the legislative authority to shape Brexit in any way it sees fit. This extraordinary power grab, which after all undermined parliamentary sovereignty - one of the key principles of the UK's constitution - was stopped by the courageous Gina Miller, who took the government to court and in November 2016 convinced the Supreme Court that indeed the final Brexit bill required parliamentary approval.<sup>19</sup>

But worse was to come for Theresa May. In the spring of 2017, and bolstered by encouraging polls and the continued ubiquitous performance of opposition leader Jeremy Corbyn, she decided to call an early election, in the hope of increasing her slender majority in parliament. This decision was accompanied by the triggering of the so-called Article 50 of the EU's Lisbon Treaty which required a country to leave the EU within two years. The election was a disaster for the government. Instead of increasing her majority, May was now forced to form a minority government supported by parliamentarians from the Democratic Unionist Party of Northern Ireland.<sup>20</sup> Corbyn had fought an inspiring campaign, and although he lost the election, made substantial gains and was now widely regarded as a viable alternative as prime minister. But Article 50 proved to be an even bigger straightjacket. At that stage, the government still had not identified the finer details of a Brexit deal. Impact assessment studies on the effect on the economy, on security, or on migration were either not even commissioned or still outstanding. Yet the government had set itself a tight deadline; the meeting of which could at best be described as optimistic. It was as if someone confidently announces to jump into the sea, without knowing one's capability to swim, or indeed the potentially treacherous nature of the water. One must remember that discussions with former EU partners, with individual countries or with the negotiation authorities of the EU bureaucracy and the EU parliament were still at an exploratory stage, without knowing precisely what the UK's position on all vital aspects was, and how those positions would be perceived by the EU and its individual member states.

Davis in particular was often nebulous in his statements to parliament, while frustrating his European counterparts with shifting or unclear UK positions. Frequently stating that ‘nothing is agreed, until everything is agreed’, his strategy was a holistic one, addressing as many issues as possible simultaneously, and inching them forward towards a possibly positive outcome. But this is not how the EU works, and Davis as former junior Europe Minister in the government of John Major (1990 – 1997) ought to have known better. Multiple EU enlargement negotiations have shown that the EU does sectoral negotiations, concentrating on issues one by one, whilst following a clear list of priorities. As such, the chief negotiator (in this case former Single Market Commissioner Michel Barnier) canvasses the priorities of the European Parliament, which must give its final consent on any deal, as well as all member states before establishing EU positions on every issue. These positions are then used as the EU’s negotiation platform. A flexible approach as desired by Davis, where issues are lumped together, and compromises are reached by looking at the whole picture and not just at individual items is simply not workable for the EU as it would require Barnier to constantly go back and forth between the UK team, and the individual member state governments and the European Parliament. As evidenced by any EU enlargement process, negotiations occur amongst EU member states on what to expect from any potential EU candidate, with the input of the latter kept at a modest level. And likewise, with Brexit, the EU first had to negotiate amongst itself what to expect from the UK, before it could begin the process of negotiating a deal.

Triggering article 50 without having concrete positions, without evaluating options and alternatives, and without knowing the impact that such options would have on the UK was therefore an extraordinary act of casualness that imposed a needlessly tight deadline on a highly complex process.<sup>21</sup>. ‘So what?’, exclaimed the Brexit hardliners in the Conservative Party, arguing that no deal is better than a bad deal, and the UK could always just walk away from the negotiations. Ignoring the fact that a bad deal could be avoided by diligent preparations on behalf of the UK government, the overwhelming evidence gathered by think tanks, government departments and business associations stated ever more clearly, that a failure to secure a deal would result in a cliff edge scenario with drastic reverberations for the British economy and potentially catastrophic consequences for investment and jobs. Unlike the government, the House of Lords, the country’s unelected second legislative chamber did its homework and had

commissioned a 60-page report on a failure to secure a deal.<sup>22</sup> It provided for grim reading. *'It is difficult, if not impossible, to envisage a worse outcome for the UK'*, was only one of many remarkable phrases. No deal would mean that the UK would henceforth trade with the outside world (including the EU) on terms agreed through the World Trade Organization. Such a move would have catastrophic consequences ranging from a 20% rise in food prices, grounded airline flights, the loss of 75,000 jobs in the financial industry, to a loss of £8-10 billion in tax revenues. To sum it up, the Lords pointed to the crucial cause of this mess: *'The key factor adding to the risk of 'no deal' is the lack of time'*. One would be hard pressed to find a worse example for government incompetence and recklessness in the post war history of the United Kingdom than the start of the Brexit negotiations. The EU's chief negotiator in the European Commission Michel Barnier, but also Guy Verhofstadt, his counterpart in the European Parliament and the individual member state governments were of course aware of the impossible situation that May and Davis had navigated themselves into. The UK needed a deal, but instead of assessing the Brexit process in all its fine detail, May had decided to start the clock prematurely, needlessly compromising the outcome of Brexit which – if one needs reminding - was to be one of the most radical transformations of the UK in its modern history.

### **Brexit Issues: The First Phase of Negotiations**

Fully aware of its superior negotiating position, the EU from the start insisted that three vital issues needed to be clarified first, before the real deal – that of identifying the future trade relationship between the UK and the EU – could have been discussed. It took both sides an awfully long time, nine months after Theresa May had triggered Article 50 to reach an agreement, but finally on December 8, 2017, both sides issued a joint statement described by the Irish Prime Minister Leo Varadkar as the 'end of the beginning'. These issues were the rights of EU citizens in the UK (and vice versa, the rights of British citizens residing in EU member states), the divorce bill and how to account for the UK's budget commitments which were given before Brexit, as well as



the nature of the border between Northern Ireland (a UK entity) and the Republic of Ireland (an EU member state).

*Migration and the Rights of EU nationals:*

All EU citizens are entitled to take advantage of one of the key ingredients of the Single Market: the free movement of people, which allows anyone to settle in any EU country, whether as a pensioner, as a worker, as a student, or simply as a private person, as long as they hold a passport of an EU member state. After the Big Bang enlargement in 2004, nearly all EU states, many citizens from new member states sought a better economic future and moved abroad, with the UK being by far the most attractive destination.<sup>23</sup> Over just twelve years, the number of EU citizens settling on British shores was close to 1.5 million, bringing the total number to 2.9 million people by 2016.<sup>24</sup> But the UK also needed to be watchful of any notions that might undermine the status quo of the 1.2 million British citizens that had settled in EU countries, as any migration or visa deal would almost certainly be reciprocated.

Migration is a fickle business. Up until the referendum, it was very good for the UK as it closed vital skills gaps. Migrants also worked jobs that Brits were often hesitant to take up.<sup>25</sup> The employment rates of migrants from the EU was also higher than that of UK citizens,<sup>26</sup> and tax revenues and productivity improved accordingly. Wages and thus inflation were also kept under control which was great news for business, consumers, the government and the Bank of England. Hence, the economic boom prior to the financial crash of 2008 and the subsequent recovery would not have been possible without migrant workers. On the other hand, low wages disproportionately affected low income workers. In areas with high migration, public services, such as schools, health centres, or hospitals came under severe pressure. But these shortcomings were the result of governmental inactivity and could not necessarily be blamed on migrants. More spending on public services and a fairer tax distribution would most certainly have been better remedies in the long term. Still, managing these considerable migration waves in the short term proved very challenging, and a hospital for example can't just be built over night. In the end, many citizens' capacities to absorb the extent and speed of change was severely stretched.

If the UK intended to keep prosperity at comparative levels, migration post Brexit would have to continue. Any country, and particularly one that now intended to

brand itself as ‘Global Britain’, needed global talent. But some restrictions, some quotas, some visa policy still need to be implemented. For years, Nigel Farage heralded the Australian system, which welcomes migrants depending on the type of skills that they possess. However, in the aftermath of the referendum, the UK government never explicitly stated which system it preferred. In addition, although the free movement of workers (i.e. those with jobs) might cease, the free movement of people (which also includes tourists) will not stop. Hence, any migration control could only relate to workers and as such, the UK would most likely see a drastic increase in the number of illegal workers with the added disadvantage that those disappearing into the black economy would not contribute to tax or national insurance revenues. Finding a coherent balance between a free movement of workers and people, therefore represents a formidable challenge.

Even worse, any visa regime might deter high skilled workers. How about the spouse? How about older children who would soon enter the job market? Would they be allowed to be economically active? And how about those high skilled workers who arrive at the border without a confirmed job offer? Could those skills be assessed at a border crossing? Visa regimes are also notoriously difficult for businesses to administer and plan. Say for instance a business has a certain quota for low skilled jobs. But what if one of your low skilled employees proves to be a big success? You might not be able to promote her as there might not be any visa vacancies in the higher job category. As one can see, managing migration is terribly complex. It is about finding a balance between lower migration numbers (after all, this was one of the underlying currents for the ‘Leave’ vote) and migration that sustains productivity, skills and growth (which is what businesses and ultimately every voter wants).

In the end, migration might cease to be an issue rather quickly. After all, who would like to move to a country that is not welcoming to migrants and that because of Brexit might suffer economic decline. Migrants came to the UK because it was a successful country, because it was a job machine, and because it had one of the lowest unemployment levels in Europe. They will not come, and some might return to their country of origin, if these positive economic factors are no longer. Nigel Farage and many Brexiteers would welcome this. Life is after all ‘more than just economics, it is also about culture’<sup>27</sup>. One cannot be sure whether this notion would be shared by many voters, who might see their jobs disappear and their living standards compromised.

But free EU migration will come to an end with Brexit. The December 2017 agreement confirmed that EU citizens living in the UK, and their UK counterparts living in the EU will continue to enjoy the benefits of the free movement of people but only until the day of Britain's exit from the EU on March 29, 2019. As such, anyone from the EU who might arrive before that day will not see their rights compromised. In an extraordinary concession that alarmed several Brexiteers, these rights will not only be enshrined in UK law, but furthermore will be protected by the superior jurisdiction of the European Court of Justice up until March 2027.<sup>28</sup> However, EU nationals will lose their rights of residency should they live outside the UK for more than five years. In addition, those UK citizens who have enjoyed their retirement on the Spanish costa will not be forced to move back to the UK, so long as they had resided in an EU country before Brexit day.<sup>29</sup>

#### *The Border with Ireland:*

Relations between Britain and its former colony Ireland were always highly sensitive. In the rest of the Empire, a laissez faire approach allowed for the involvement of the native population. But because of the close geographical proximity of Ireland, this option was not feasible as any trouble in the colony could have spilled onto the British mainland. This meant that the UK's handling of Ireland was always heavy handed. Furthermore, the antagonism in Northern Ireland (which is part of the UK) between British, Protestant settlers and native Catholics resulted in a civil war that lasted some thirty years and was only ended with the Good Friday Agreement of 1998. The guarantor states of this Agreement are both the UK and the Republic of Ireland, and any changes to its legal prerogatives might require a further referendum. Given that most voters in Northern Ireland had chosen 'Remain', it would not have been unthinkable, that the province would leave the UK and join the Republic in the south. Furthermore, the EU stood firmly behind Ireland, which was only logical given that Ireland was a member of the club and the UK would soon not be. And the Republic had much to lose from Brexit. The vast majority of Irish exports ended up in the UK. After the Good Friday agreement, there was a profusion of cross border co-operation, with people working on the 'other side' and supply chains developing across the former divide. Bus networks were aligned, as were energy provisions, and Irish businesses invested in the north and vice versa. Any hard border would have had vast economic

consequences for the Republic and thus it was no surprise that a continued open border was a red line for the EU.

But an open border as envisaged by Ireland and the EU would have been difficult for Theresa May. Time and time again she insisted that Britain was leaving the EU, which of course meant leaving EU policies, most notably the Single Market but also the Customs Union which regulates trade with non-EU partners. But leaving those policies would logically result in a hard border as in particular the free movement was no longer. The political situation was further complicated by the role handed to Northern Ireland's Democratic Unionist Party (DUP) after the general election in June 2017. The Conservative Party fell well short of an overall majority and thus, Theresa May needed the backing of the ten DUP members of the UK parliament to secure a working majority. Given the crucial role of the DUP in maintaining her government, it therefore came as an embarrassing surprise, that May had never consulted her Northern Irish colleagues over a Brexit deal. With the December 2017 agreement ready to be signed, the DUP's leader Arlene Foster announced that she could not support a deal that would treat the province differently from the rest of the UK. But this was exactly what May's team had planned: a special status for Northern Ireland that would prevent the establishment of a hard border, and thus would not contravene the terms of the Good Friday Agreement. May therefore had no choice but to leave the negotiations and return to London to liaise with Foster. She returned to Brussels three days later with an agreement that deferred the crucial issues onto a later stage. The agreement affirmed though, that there will be no hard border across the island, and that the whole of the UK (including Northern Ireland) will leave the EU and with it the Customs Union and the Single Market. But on the other hand, the agreement also stated that the UK would maintain 'full alignment' to EU rules in those areas that are affected by the Good Friday Agreement. These areas are vast and total 142 issues of cooperation between Northern Ireland and the Republic. How May's government will be able to square this circle is yet unknown. It seemed fanciful to exit an EU policy such as the Single Market, yet simultaneously maintain the rules of precisely that policy. The agreement on the Irish border was a fudge that offered no legal clarity, designed to enable both sides to move onto the next negotiation stage in the hope that some miraculous political solution might emerge.

**Table 1.5: The First Phase of Negotiations: Key Points**

Citizens' rights	<ul style="list-style-type: none"><li>• EU citizens in UK, and UK citizens in EU maintain rights to live, study and work until the day of Brexit and protected by ECJ jurisdiction until 2027.</li><li>• These citizens are also allowed to bring family members to live with them, but not future spouses.</li><li>• Decision on rights of Expat Brits to move to another EU country than the one they are currently residing in was postponed.</li></ul>
Border with Ireland	<ul style="list-style-type: none"><li>• No hard border</li><li>• Whole of UK including Northern Ireland will exit EU policies</li><li>• UK will maintain 'full alignment' with EU rules in areas that are relevant to the Good Friday Agreement.</li><li>• Decision on how to achieve this was postponed.</li></ul>
Divorce Bill	<ul style="list-style-type: none"><li>• 40 – 45 billion Euro</li><li>• Final figure difficult to assess because of ongoing pension liabilities</li></ul>

*The Brexit Divorce Bill:*

The budget of the European Union is a curious construct. It is agreed for seven-year periods, and prior to the start of each financial perspective, all budget items are agreed upon in advance. The problem emanating from Brexit was that the referendum and the triggering of Article 50 fell during the financial perspective of 2014 – 2020. This means that prior to that budget cycle, the UK made a legally binding commitment to the financing of certain programmes and policies. But the Brexit date of March 2019 did not coincide with the end of a financial perspective, and thus according to the EU, the UK's financial commitments of around €20 billion per year needed to be met until the end of 2020; one year and nine months after the country had left the EU. In addition, throughout its 46-year membership of the EU, the UK had accrued further financial commitments, most notably the payment of pensions to EU staff.<sup>30</sup> These too ought to be met, bringing the overall figure to around €45 billion. 'The EU can go whistle', was the undiplomatic response of Foreign Secretary Boris Johnson, and leading Brexiteers claimed that Britain should leave the EU without any payments, and that once again, no deal would be better than a bad deal that carries such a hefty divorce settlement. In the end, sanity prevailed, as a failure to meet legal financial obligations would have been very detrimental to the UK's international standing. The December 2017 agreement therefore stated that the UK will meet all future financial commitments, in fact giving in to the EU's assessment. As such, the divorce bill includes €17-18 billion

budget contribution in both 2019 and 2020. There are a further €21-23 billion on unpaid bills, as well as €2-4 billion on other liabilities including pensions. The exact and final figure will not be known for years, as pension payments can stretch far into the future<sup>31</sup>.

### **The Second Phase of Negotiations: Trade**

Waving the white flag of surrender, the two sides moved onto the next stage of negotiations. Having conceded to all EU demands or managing to defer controversial issues to a later stage, the big prize – that of a bespoke trade deal – was up for grabs. The fundamental logic of typical negotiations that involve the EU stayed intact: a union that negotiates amongst its members what to offer the UK, which represented a thumping come-down for the British side and cast aside any hopes that a Brexit deal might indeed represent the outcome of negotiations between two equal partners. For this to happen, the risk for the UK of being denied access to the lucrative European markets in a post-Brexit world were just too high. This was a remarkable turnaround since in January 2017, May had stated that no deal was preferable to a bad deal. A host of analyses begged to differ. Leaving the Single Market would result in a ‘Brexodus’ with firms establishing new headquarters on the continent, taking with them highly qualified personnel.<sup>32</sup> The performance of the UK’s currency has also been subject to a massive devaluation, while certain key economic sectors might have to rethink their entire operation. A ‘no deal’ scenario could indeed turn out to be the worst case.

#### *Currency:*

On a more positive note, assessments of the UK’s currency in the post-referendum era were mildly optimistic. For years, Sterling was a magnet for speculative international financial capital. In the absence of attractive yields for commodities, stocks and government bonds, the UK experienced a property frenzy, and an overvalued Pound meant a loss of international competitiveness. The Brexit referendum resulted in an immediate drop in value of 30% against the US dollar and 20% against the Euro and thus corrected this overvaluation in a dramatic fashion. Sterling was now more levelled, British goods were now more competitive internationally and any upcoming costs of

accessing the Single Market might be offset by lower exchange rates. Still, the UK is an import economy with a trade deficit of 200 billion €. In the months following the referendum, import prices went up. So did inflation, and with it the purchasing power of wages declined. In any case though, the performance of currencies is impossible to predict. While the Euro was on a high post-referendum, the situation could easily turn once the sovereign debt crises in the Eurozone hit new heights. Under this scenario, the UK would be hit by a double blow: that of a more expensive Sterling complemented by restricted and more costly access to EU markets.

#### *Overall Trade:*

But all these indicators paled into insignificance when compared with the paramount importance of trade. For four decades British firms and businesses had unfettered access to its European trade partners. The EU share for British trade in goods reached 56% just before the referendum. For services, it was 40%. Yet, with Brexit trade relationships needed to be redefined almost from scratch. Turning to the National Institute for Economic and Social Research, Monique Ebell<sup>33</sup> gave a stark assessment of the potential risks of leaving the EU's Single Market. A hard Brexit – i.e. trade with the EU on the terms established by the World Trade Organisation – would result in a loss of 60% for EU trade in goods and also 60% for EU trade in services with the UK's cash cow, the finance industry particularly affected. Should the two sides agree on a specific trade deal (a so-called Free Trade Agreement or FTA) the losses would be slightly lower for goods (40%) but the same for services (60%). The consequences for UK trade would be astonishing. From an overall perspective, dealing with the EU through the WTO would mean a drop of 35% for goods and 25% of services. An FTA would not remedy the situation with a loss of 22% for goods and 25% of services.

Brexiteers, most notably the MEP Daniel Hannan but also Trade Minister Liam Fox, reiterated that any loss of EU trade would be more than compensated by a gain in non-EU trade. The argument was simple: leaving the EU would allow Britain to enter free trade negotiations with economic power houses such as the U.S., China, Japan or India; something that under the EU regime was governed by the Common Commercial Policy. The Brexiteers saw enormous economic potential, given that the Eurozone's growth prospect had been largely flat while non-EU markets promised higher returns. But Ebell did not share the Brexiteers' optimism and bluntly stated that any gains

cannot compensate for the losses emanating from a hard Brexit. Her report argued that the gain in services would be close to zero, although she did acknowledge a potential for trade in goods citing an increase of between 26 and 66%. But in any case, such trade deals would require years of painstaking negotiations. The recent trade deal between Canada and the EU took over seven years of brokerage. Granted, the UK post Brexit and the EU would have much more of a regulatory alignment, which would help in speeding up the process, but the task of establishing special trade relationships with a host of countries would take many, many years and even after the conclusions of those might not guarantee the same degree of trade volume that the pre-Brexit status quo offered. In the end, establishing new trade relationships could almost certainly represent a formidable risk to jobs and economic stability.

### *Manufacturing*

In the globalised economy of the 21<sup>st</sup> century, quality depends largely on access to international markets. And here, labour mobility and the absence of trade restrictions are key to the establishment of an outward looking, international economy. Take for instance London's highly prestigious fashion industry. At the high end, fashion houses need to recruit top designers, who might not all be UK born. At the lower end, garments then need to be fabricated by using seamstresses from for instance lower wage Eastern Europe. Or take the car industry: a Bentley limousine starts life in the Slovakian capital of Bratislava where the car is fitted with a German engine. Financing arrives from Dublin, while English workers apply the chrome parts. Or take the example of Honda's factory in Swindon in the South East of England. The company has adopted a widespread supply chain model where parts are only stored in Swindon for a very short production cycle of under two hours, with new parts constantly being restocked by around 380 trucks which on a daily basis arrive from all across the continent. It is easy to see that trade restrictions, even increased time spent at customs would necessitate a complete rethink of how products are manufactured across the UK. Granted, for goods that fall under the free trade regime of the WTO, nothing much would change, irrespective of the type of Brexit deal that emerges. Hence, such industries as aerospace, computers, telecommunication, information technology and pharmaceuticals will encounter no new trade restrictions. However, the same cannot be said of others that face a steep imposition of tariffs. These include cars (10%), chemicals (4.6%),



machinery (between 1.7 and 4.5%), steel (between 8 and 30%), or agriculture (on average 16% but higher for certain products such as beef which faces a 40% surcharge).

#### *Cars:*

A more specific picture of just how massive an industry will be affected by a new trade deal is offered by the car industry. Over the past decade, UK manufacturers have gone from strength to strength and the country now produces 2 million cars per year, making it Europe's largest manufacturer. But 80% of those cars end up in the EU. This is a consequence of the Single Market and its free movement of goods, which allows manufacturers to set up plants in only a few countries but with access to all EU members. As such, non-UK manufacturers invested heavily in Britain, including the likes of Nissan (with an enormous plant in Sunderland), Honda, BMW (who produces the Mini), Volkswagen, and Tata Motors (which makes Jaguar cars and Range Rovers). A post Brexit UK must consider, that British-based manufacturers import 40% of their steel (at a WTO tariff of between 8 and 30% depending on type and quality). Once a car comes off the production line, a further 10% tariff is applied when selling it off shore.

#### *Banking*

The City of London is the financial centre of the world and much of the UK's tax revenues, as well as 500,000 jobs depend on it. But 30% of its activity focuses on EU markets. Here, Brexit provided the City with a high degree of uncertainty. Will London maintain the so-called passporting rights to the EU, which would allow it to continue offering services to EU-based economic actors? The same applies to some U.S. and Swiss banks who currently are gaining EU access through their London-based branches. The EU has already moved the European Banking Authority from London to Paris. But to what extent will the industry follow? Will it establish headquarters in Frankfurt, Amsterdam, Paris, Dublin or Madrid? Or will it merely open smaller branches on EU territory which would then qualify for an EU finance passport? And if this is the case, will the EU impose benchmarks as to the size of the operation to avoid being 'infiltrated' by non-EU finance houses? What is at stake for Britain is to maintain an epic market share, with alternative locations already snapping opportunistically at its heels.

## **Trade Deal Options**

We ought to remind ourselves, that the referendum merely asked whether voters would prefer to ‘Remain’ in the EU or wanted to ‘Leave’. At no point did the campaign on both sides address the specific nature of post-Brexit trade relations with the continent. Many people simply assumed that Britain would continue to be part of the EU’s Single Market; a so-called soft Brexit. But such an option would necessitate that Britain remains under the jurisdiction of the European Court of Justice; which could hardly be categorised as a ‘Leave’ vote. Hence, a hard Brexit option - leaving all EU policies and reclaiming total national sovereignty - became ever more prominent. But this would mean leaving the Single Market and thus potentially jeopardising Britain’s fundamental economic parameters. What models could Theresa May’s government refer to at the start of the second round of negotiations?

### *Norway:*

The affluent Scandinavian country has on two occasions flirted with the idea of joining the EU but referendums in 1972 and 1994 marginally rejected such a notion. But Norway nonetheless is to some extent part of the EU. Together with Iceland and Liechtenstein, it forms part of the European Economic Area and accepts the key ingredient of European integration; the Single Market with the free movement of goods, services, capital and labour, but without having a say in the formulation of Single Market regulations. This also means that Norway accepts the jurisdiction of the European Court of Justice in Single Market matters. In return, this gives the country unfettered access to 500 million consumers. But for this privilege, Norway pays into the EU budget, but remains outside of the big budget policies, namely cohesion (which offers financial support for struggling regions) as well as agriculture (where European farming is financed solely through the EU budget). As such, the Norway option would allow for the seamless continuation of trade. This would provide economic certainty which is vital for jobs and foreign investment. But budget contributions would need to be made and in the end, these might be higher than the 1% GDP membership fee that the EU currently charges. Furthermore, Britain’s sovereignty would be severely curtailed. The country would have to follow Single Market rules over which it has very

little influence, while British courts would still be subjugated to the European Court of Justice.

#### *World Trade Organisation (WTO)*

At the other end of the spectrum, Britain could just walk away from the negotiations and organise trade based on its membership of the WTO. All EU countries too, are members of this organisation which regulates trade across the globe. Ever since its inception in 1995, the WTO came a long way and now around 40% of trade in goods is tariff and restriction free. But the WTO has failed recently to open up the market for services. Intellectual property rights, inventions and patents also found it difficult to be elevated onto a WTO platform, and certain areas (in particular agriculture) are still subject to massive tariffs. As a fall-back option, it would provide with UK with an almost instant boost for national sovereignty. Non-EU trade deals can be negotiated with any WTO member without the interference of Brussels. This is very tempting for hard line Brexiteers, but as argued above it does carry enormous risks to a UK economy that for years basked in the glory of the EU's Single Market.

#### *Turkey*

Facing the economic uncertainty of establishing a new trade regime, the Turkey option might also offer a solution. Although Turkey has been an EU candidate since 2005, negotiations have stalled recently and as long as President Recep Tayipp Erdogan remains in power are unlikely to resume. Still, the country is part of the EU's Custom Union. A logical spill-over of the Single Market, the so-called Common Commercial Policy (CCP) presents the rest of the world with a united EU front when it comes to trade. Individual member states cannot form their own trade deals, which would make a bi-lateral trade deal, for instance between Spain and Mexico, impossible. Any external non-EU trade must go through the supranational policy of the CCP. While this compromises national sovereignty, it provides a potent leverage when dealing with mighty trade partners such as China, Japan or the U.S. Hence, given the prize of accessing the enormous EU market, the EU can afford to play tough and negotiate more favourable deals than individual member states could by themselves. This would be beneficial to the economic standing of the UK, but the downside of course is the continuation of a perceived deference to Brussels in external trade matters

## *Canada*

Norway and Turkey would represent options that are too compromising to the notion of national sovereignty and hence were not acceptable to many Brexiteers. Instead, the Canada option was regarded as a more accurate reflection of the public's will to 'Leave'. In 2016, the EU signed its most wide-reaching free trade agreement so far, entitled the 'Comprehensive Economic and Trade Agreement (CETA)'. Both sides claimed to have eliminated 98% of tariffs, resulting in a free trade zone between 500 million Europeans and 35 million Canadians. But the deal also had certain limitations that might make this option unsuitable for Britain. While CETA offers tremendous opportunities for trade in goods, the service sector is severely compromised. With regards to the finance industry, which after all represents the most lucrative area of the UK economy, CETA cannot stop Canadian and European regulators from maintaining specific licensing and regulatory requirements. As such, a bank for instance would only gain access to a new market by establishing a substantial presence. This falls far short of the current passporting rights that UK banks enjoy in Europe.

This fundamental structural deficiency explained why Brexit Minister David Davis argued for a Canada plus, plus, plus option.<sup>34</sup> And Theresa May had argued for a long time, that she aimed for a 'bespoke' trade deal that is 'significantly more ambitious' than CETA. But the UK government might find that the EU will not share its enthusiasm. Under what circumstances would the union grant unilateral access to its most successful achievement, the Single Market? And what would it demand in return? What would be the point of EU membership if countries can enjoy the benefit of free movement without taking on board the commitments of European integration (most notably the EU's membership fee). 'Having the cake and eat it', as Foreign Secretary Boris Johnson had put it in characteristically blunt fashion represented a pipe dream from the beginning. A mere week after the December agreement, chief negotiator Barnier gave a taste of matters to come, indicating once again, that the EU had strict red lines and that Brexit would have strong legal, financial and economic implications. As such, he reiterated that the UK's intention to leave the Single Market would be all encompassing, and as such, any moves to maintain the highly lucrative rights of UK banks to do business in the EU would have to be sacrificed. Furthermore, in addition to free trade deals on goods, Barnier only saw potential in three further areas: those of judicial cooperation, defence and security, as well as aviation. Let battle commence,

and prior to the start of trade negotiations, it seems reasonable to assume that the outcome might be along two scenarios. Britain will get a limited deal along the lines outlined by Barnier, or a more comprehensive option can be agreed upon, but only if it involves financial UK contributions to the EU which could be so substantial, that they come close to, or even exceed existing membership contributions.

### **A new Option: The Continental Partnership**

But Barnier and member state governments would be well advised to select a sensible position. The UK is the world's fourth largest economy. Its 65 million citizens make it the second largest country in the EU (after Germany with 82 million). It is a major importer of European goods and vital to the continent's service economy. It is also arguably the only European country except for France that feels comfortable acting on the international stage and as such its voice reverberates in international affairs. Brexit in whatever shape will constitute a major loss to the European Union, to its economic vitality and its standing in the world.

European leaders also ought to remind themselves that the EU is not Europe, and Europe is not the EU. Instead, the European Union is an organisational vehicle that unifies European countries economically and politically, but from this perspective it is not and never has been the sole vehicle. After World War II, communism under the leadership of the Soviet Union inadvertently organised central and eastern Europe. Some countries chose neutrality (Sweden, Finland, Austria), others were ostracised because of their fascist tendencies (Portugal, Spain and more recently Belorussia). At one stage, EFTA – the European Free Trade Association which was founded in 1960 by Norway, Sweden, Denmark, Austria, Switzerland, the UK and Portugal had more members than the EU.<sup>35</sup> It is true, that European integration in the form of the EU is now by far the most popular model on the continent, but that does not mean that it was or will be the only one.

We now have a number of countries, whose governments have expressed widespread reservation at how the EU organises affairs between European neighbours, including Poland, Hungary, the Czech Republic or Slovakia. These countries joined the

EU in 2004, not necessarily out of conviction for a European dream as practised by the EU, but out of necessity, in order to disentangle themselves as quickly and deeply from their communist pasts as possible. This was not an affirmative decision, it was a tactical one based on the circumstances of the time. There are also a number of candidate countries for whom EU membership is a distant dream. The likes of Macedonia, Serbia, Bosnia & Herzegovina, Albania or Turkey are many years, if not decades away from EU membership. As discussed in Chapter Two on Enlargement, for those countries, European integration as practised by the EU represents a distant reality.

**Table 1.6: Brexit Options:**

	Norway	Turkey	Continental Partnership	Canada	World Trade Organisation
Single Market Access	yes	no	yes	no	no
Labour Mobility	yes	no	limited to job offers	no	no
Single Market rulemaking	no	no	partial	no	no
Bound by ECJ decisions on Single Market	yes	no	jointly with UK courts	no	no
Duty Free Access for Goods	yes	yes	yes	yes	no
Duty Free Access for Services	yes	yes	yes	partial	no
Part of EU External Trade Policy	no	yes	potentially	no	no
Part of EU 'money' policies	no	no	no	no	no
EU Budget contributions	yes	no	yes	no	no

It is for these reasons, that the EU could use the Brexit processes to identify alternatives that would allow countries to participate in European integration without being EU members. This notion of a variable geometry is not new and first came to public attention when Wolfgang Schäuble (then Interior Minister of Germany) and the disgraced former IMF Director Dominique Strauss Kahn (then Economics Minister of France) placed their considerable weight behind it. More recently, five leading economists and politicians resurrected the idea under the headline of a new 'Continental

Partnership'<sup>36</sup>. The main tenet of their argument is that countries should be given an option to withdraw from certain EU policies that might not be in line with their political culture and their broader understanding of what EU integration ought to achieve; precisely the scenario that culminated in the British referendum. Eventually, a more flexible Europe could emerge, more attuned to national sensibilities, offering different degrees of European membership. On the downside, this would require intense negotiations, most notably over the EU's budget, as net contributors might have a financial incentive to leave. But as a considerable advantage a new form of membership would offer countries that for the foreseeable future will not be able to meet EU demands for membership to participate in some form of European integration. In short, the EU could use Brexit as a starting point for a new relationship between Britain and the continent, that in return could also prove immensely useful for the likes of Turkey and some Balkan countries. It would turn Brexit from a threat into an opportunity.

How could a continental partnership work? In essence, access to the EU's big prize – the Single Market – would be granted, although the free movement of people could be compromised in order to meet one of the UK's red lines. Such a free movement could still be implemented but not for all people, but merely for workers i.e. for people with secure job offers. This already would bring immigration numbers down, without jeopardising Britain's productivity too much. In return for this concession, Britain however would need to make contributions to the EU budget without having access to the EU's 'money policies' of agriculture and cohesion. The UK could also continue to be involved in the making of Single Market rules through a bilateral organisation. The same applies to Single Market jurisdiction which could be handled by a new institution integrating ECJ and UK judges. Judicial cooperation which extends to catching criminals but also in prevalent civil matters such as divorce or alimony payments could also be handled in a new bi-lateral fashion. The same could also apply to another of Barnier's targets, security and defence. Yes, the Continental Partnership model would result in the establishment of new governmental and bureaucratic layers and would increase the cost of politics. But it would also undoubtedly be a boost to democracy in that different national political cultures might no longer be compromised by the prevailing notion of an 'Ever Closer Union' as outlined in the Maastricht Treaty of 1992. It would also offer lagging EU candidates the chance to benefit from European

integration much sooner and in a manner that the standard EU Enlargement process currently does not allow.<sup>37</sup>

## **Lessons**

Maybe the UK would have been wise to resist joining the EU in 1973 in the first place. But 40 years ago, Britain was regarded as the ‘sick man of Europe’. The economy was in dire straits, inflation rampant, productivity low and industrial relations confrontational. The EU on the other hand propelled many countries to enviable levels of prosperity and Britain felt that maybe they too could catch something of that positive economic vibe. It is also true that the UK benefitted tremendously from European integration. The high output in the car industry and the phenomenal financial position of the City of London would be unthinkable without the developments surrounding the Single Market project, which transformed the UK from one of the poorest EU member states in the 1970s to the second richest country just before the financial crash of 2008. But Britain’s political culture was always at odds with the European project. Yes, to economic integration, but a firm ‘no’ to political integration or indeed to an ‘Ever Closer Union’. Maybe joining the EU at the start of the project would have allowed Britain to squash any federalist ambitions and instead help to construct a Europe based on bilateral relationships between sovereign states.

But the biggest regret comes in the shape of David Cameron’s decision to hold a referendum. It seems shameful to gamble on the future of a country by aiming to silence Eurosceptic voices within his own party. A country’s fundamental relationship with its neighbours should not offer the stage for inner-party quarrels that subsequently roped in the entire country based on misleading and occasionally false information on a highly technical and bureaucratic matter that was beyond the comprehension of even the most informed citizens. A referendum is not a game show, and the host duly resigned from a job delivered in such careless and contemptuous fashion.

In the post-Brexit world, ‘Leave’ supporters might also arrive at the realisation, that some, and maybe even all aspirations of the referendum campaign will not materialise. Improving the state of democracy in the UK will not be achieved by merely



leaving the EU. It requires widespread domestic reforms which a government, encapsulated for many years by Brexit negotiations will find hard to deliver. One might also question the degree of national sovereignty that will be gained once the country operates outside the EU. It seems fanciful, that a country with a market of 65 million people can negotiate trade deals on an equal footing with the likes of China (a market of 1.4 billion people or the U.S. (360 million). Migration will also most certainly continue to keep prosperity at acceptable levels, and no government would seriously be contemplating shooting itself in the (economic) foot. Any notion of ‘taking back control’, of a rejuvenated global Britain that affirms its new-found place in the world might be just too fanciful. And how will all that pent-up anger that propelled Brexit, the desire for jobs, for decent wages, for social justice, for social mobility express itself?

But it certainly is not all doom and gloom for Britain and for the EU. Yes, the UK is engulfed in a culture war, where depending on your age, education, and socio-economic status you either are passionate against or in favour of ‘Europe’. But both the EU and Britain must rescue as much of their intricate economic and political relationship that has served both sides so well in the past decades. Still, the British people have spoken, and it is now time to define a new relationship that respects British notions of national sovereignty and democracy. The UK never caught the European bug. Its experience of World War II was not one of loss, of invasion, of occupation, of repression. As such an existentialist urge to cement a strong Europe was never part of its political psychology. The EU ought to respect this, and ought to find ways on how the undeniable assets of Britain – that of a vibrant economy, with a jewel in the shape of London as Europe’s only truly global city, of an outward looking country willing to take responsibility on the global stage – should continue to form an integral part of the European story. Failing to do so will almost certainly result in a lose-lose situation.

## Notes

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<sup>1</sup> Helmut Schmidt, Chancellor of West Germany (1976 to 1982) as a member of the German parliament in the 1950s voted against the ratification of the Treaty of Rome (1957) arguing that a Europe without Britain will stand no chance of succeeding.

<sup>2</sup> The EU budget is an odd creature given that it does not accumulate debt (i.e. all allocated money must be spent by a previously agreed date) and is ratified in seven-year periods (the so-called financial perspective). Every member state contributes around one per cent of its GDP. Upon UK entry in the 1970s most of the EU's money was spent supporting agriculture. This was great news for big producers such as France, but disappointing for the UK since the farming sector only accounted for a fraction of its economic output. This meant that the UK at a stroke became the biggest net contributor (either in absolute terms or per capita).

<sup>3</sup> Stephen George. *An Awkward Partner: Britain in the European Community*. Oxford University Press, 1998.

<sup>4</sup> With the 'Big Bang' Enlargement of 2004, the EU at one stroke increased in size from 15 to 25 members, integrating Estonia, Latvia, Lithuania, Poland, Hungary, the Czech Republic, Slovakia, Slovenia, Cyprus and Malta. Nearly all of the old EU 15-member states imposed restrictions on the free movement of people lasting for seven years; the only exceptions being Sweden, the UK and Ireland. It therefore came as little surprise that in particular young EU citizens from Central and Eastern Europe sought to improve their material standard of living by moving to those counties where wages were as much as eight times higher. By 2007 and with the integration of Bulgaria and Romania all EU-15 states imposed the seven-year restrictions rule, although with the accession of Croatia, a country of only 4 million people, restrictions were much less severe and were only applied by some member states (such as the UK, but not Germany for instance).

<sup>5</sup> In December 2015, the unemployment rate across the EU was 8.9%. In Germany it was 4.6%, and in the UK 5.3% which was in marked contrast to figures in France (10.4%) and Italy (11.9%).

Source: Eurostat.

<sup>6</sup> Simon Hix, Sara Hageman, Doru Frantescu: *Would Brexit Matter? The UK's Voting Record in the Council and the European Parliament*. Vote Watch Report 2016. [http://60811b39eee4e42e277a-72b421883bb5b133f34e068afdd7cb11.r29.cf3.rackcdn.com/2016/04/VoteWatch-Report-2016\\_digital.pdf](http://60811b39eee4e42e277a-72b421883bb5b133f34e068afdd7cb11.r29.cf3.rackcdn.com/2016/04/VoteWatch-Report-2016_digital.pdf)

<sup>7</sup> In a BBC television interview after the referendum, Nigel Farage claimed that it was terribly easy to win over working-class voters, as Labour activists were nowhere to be found.

<sup>8</sup> A picture of the poster and a summary of the controversies it caused can be accessed on: <http://www.dailymail.co.uk/news/article-3644716/Nigel-Farage-racism-storm-Brexit-poster-showing-thousands-male-refugees-warning-country-breaking-point.html>

<sup>9</sup> UKIP was at a great disadvantage because of the 'First-Past-The-Post' electoral system that is applied in the UK. The country is subdivided into 650 electoral districts, and whoever wins that constituency becomes a member of parliament. As such, 12.6 % of voters cast their ballots in favour of UKIP candidates at the general election of 2015. However, the party only managed to secure one seat; a drastic misrepresentation of the public will.

<sup>10</sup> The high percentage of foreigners in Luxembourg can be explained by the attractiveness of the tiny country as a financial hub and magnet for multi-national corporations. Figures for Cyprus are increased by large numbers of Turkish Cypriots claiming citizenship in the Republic.

<sup>11</sup> [www.standard.co.uk/news/politics/zac-goldsmith-ive-not-got-a-racist-bone-in-my-body-sadiq-khans-team-outplayed-us-a3381156.html](http://www.standard.co.uk/news/politics/zac-goldsmith-ive-not-got-a-racist-bone-in-my-body-sadiq-khans-team-outplayed-us-a3381156.html).

<sup>12</sup> As one of many examples, former EU consultant Stanley Johnson, father of former London Mayor and UK Foreign Secretary Boris, did not know the difference between the EU's Custom Union (which is the EU's rule book when dealing with non-EU trade partners) and the Single Market (which is the foundation of trade within the EU).

<sup>13</sup> A news clip on Leadsom's faux pas can be watched at:

<https://www.youtube.com/watch?v=Bxu624RpEJE>

<sup>14</sup> Leadsom wasn't done yet. As Leader of the House of Commons in May's cabinet she frequently accused opposition MPs or journalists of being 'unpatriotic', or 'unhelpful' when criticising the government's Brexit strategy, thus in effect questioning the scrutinising function of other parties and the media as vital corner stones of a viable democracy. A good example of her mindset is revealed in an interview with the BBC news broadcast 'Newsnight'. The journalist Emily Maitlis interviewing Andrea Leadsom on Brexit can be watched on <https://www.youtube.com/watch?v=zEMISSSOErk>

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<sup>15</sup> The example of Sunderland is a telling one. A highly Eurosceptic electoral district (61% voted 'Leave') the city in the north-east of England is one of the winner of European integration, because Japanese Car giant Nissan decided to establish a massive plant there, serving the EU's Single Market. This was a town that as far as European integration was concerned, got lucky. Voting to leave the EU, and thus potentially biting off the hand that feeds you if Nissan decided to move the factory inside its main European market, prompted satirists to wonder whether the referendum question was fully understood by voters. Not known for its aesthetic beauty or fine weather, ironic comments were made on whether people voted to 'Leave Sunderland'.

<sup>16</sup> Parts of Faisal's interview with Gove can be viewed on:

<https://www.youtube.com/watch?v=GGgiGtJk7MA>

<sup>17</sup> As recently as 2014, the government awarded the status of 'nation' to Cornwall, thus bringing the count to 5, although regional representation, such as an own parliament or recognition of the Cornish language in school curriculums are still outstanding.

<sup>18</sup> During rainy weather for instance, voter turnout particularly amongst older voters tends to be lower.

<sup>19</sup> Gina Miller, an investment manager and philanthropist, paid a heavy price for standing up to the government. Branded a traitor by many tabloid publications, she now required personal security and encountered death threats on a frequent basis. The Supreme Court judges did not fare too well either, as witnessed by a front page in the Daily Mail which included pictures of every judge under the headline 'enemies of the people'.

See <http://www.dailymail.co.uk/news/article-3903436/Enemies-people-Fury-touch-judges-defied-17-4m-Brexit-voters-trigger-constitutional-crisis.html>

<sup>20</sup> The support of the DUP did not come cheap. In return for supporting the government's agenda, May had to fork out an additional 1 billion pounds of public spending in Northern Ireland. Other struggling UK regions, such as Wales or Scotland were suitably outraged at this perceived preferential treatment.

<sup>21</sup> Nine months after triggering Article 50, the government still had no clear picture how Brexit in whatever shape or form might affect the UK and its economic sectors. Alarm bells were ringing on December 6, 2017, when Davis appeared for one of his frequent briefings to the parliament's Brexit Committee. Hilary Benn, chair of the Committee and a leading Labour politician frequently had to catch his breath in amazement that the government so far had not commissioned any impact studies on the consequences of Brexit for the automotive, aerospace or financial services sector. Davis simply replied. *'The answer is going to be no to all of them'*, further stating that the use of economic models is questionable, as they all have been proven wrong in the past. See: The Guardian: *'Davis admits impact forecasts don't exist but escapes censure'*, December 7, 2017, p.14

<sup>22</sup> See: The Guardian: *'No deal outcome scenario is the worst imaginable, say peers.'* December 7, 2017, p.15.

<sup>23</sup> In 2016, 5.3 million of the 63.7 million people living in the UK were born abroad. According to the Office for National Statistics, the largest group with 853,000 were from Poland, followed by Ireland (331,000) and Portugal and Romania (both 175,000).

<sup>24</sup> Ever since 2005, net migration – the difference between the number of people settling in and leaving the UK hovered around a mark of 200,000 per year. By 2014, the figures had jumped to 300,000 and in June 2016 was 336,000. A year on, and net migration had dropped significantly to 230,000

See: Office for National Statistics. Migration Statistics Quarterly Report, November 2017

<sup>25</sup> The BBC journalist Nick Robinson produced a documentary entitled 'The Truth about Immigration' (January 2014) in which he interviewed a strawberry farmer from Kent who had just advertised jobs for the backbreaking work of fruit picker. Only five Brits applied, two of them showed up on the first day, but none returned for the second day, forcing the farmer to fill vacancies with workers from eastern Europe.

<sup>26</sup> According to the Office for National Statistics, in 2016, employment rates for UK residents from Central and Eastern Europe was 83%. The figures for the old EU of 15-member states was 76%, for UK citizens 74% and for non-EU residents 61%.

<sup>27</sup> In: Nick Robinson, 'The Truth about Immigration', BBC, January 2014.

<sup>28</sup> Any EU citizen living in the UK who so far has not been granted (or has not applied for) permanent residency will also have their rights protected under a new procedure that will grant those citizens eventual 'settled status'. The deal also includes the reunification of relatives who might join their family members at a later stage, and extends to unborn and adopted children, but not to future spouses or civil partners.

<sup>29</sup> However, the December 2017 agreement postponed any decisions on the rights of expat Brits to move to another EU country post 2019, or indeed the rights of Brits to work cross-border in several EU states. Those issues were deferred to the second round of negotiations.

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<sup>30</sup> As a member of the European Parliament, Nigel Farage is also entitled to an EU pension, which in his case will total around 73,000£ per year, payable upon his 63<sup>rd</sup> birthday. When confronted with claims of hypocrisy, Farage insisted that he will take up this pension, arguing that with Brexit, he had in fact voted for the abolition of his job. ‘I am the turkey that voted for Christmas’, he stated.

<sup>31</sup> The EU only made one concession on financial matters. Because of Brexit, two EU agencies were moved from London to EU locations. As such, the European Medicines Agency will now be in Amsterdam, and the European Banking Authority in Paris. In the December Agreement, Barnier no longer insisted that the UK paid for the cost of the relocations.

<sup>32</sup> Jonathan Portes the former Chief Economist to the Treasury in Gordon Brown’s government who moved to the National Institute for Economic and Social Research claimed in November 2016 that a no deal Brexit would result in lower tax revenues of 1% of GDP.

<sup>33</sup> Monique Ebell is a Research Fellow at the National Institute for Economic and Social Research who has published extensively on the effects of Brexit on trade. You can access one of her articles at: See: <https://www.niesr.ac.uk/blog/will-new-trade-deals-soften-blow-hard-brexite>.

<sup>34</sup> Davis was interviewed by Andrew Marr, one of the UK’s most prominent political journalists in the immediate aftermath of the conclusion of the first round of negotiations.

See: <http://www.telegraph.co.uk/news/2017/12/10/britain-should-sign-canada-style-trade-deal-european-union-brexite/>

<sup>35</sup> In contrast to the EU, EFTA only practised the free movement of goods, but not of services, capital and labour. Its political integration was also limited, as it had no supranational institutions such as a parliament.

<sup>36</sup> Jean Pissany-Ferry, Norbert Roettgen, André Sapir, Paul tucker and Guntram Wolff: ‘Europe after Brexit; A Proposal for a Continental Partnership.’

See: <http://bruegel.org/2016/08/europe-after-brexite-a-proposal-for-a-continental-partnership/>

<sup>37</sup> See Chapter 2 on Enlargement.