LSE European Institute
25th Anniversary

LSE 'After Brexit: the future of the UK in Europe' public lecture series

Britain after Brexit: will something continue to turn up?

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Hashtag for Twitter users: **#LSEBrexit**

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THE SUNDAY TIMES

After the Brexit vote

Will something continue to turn up?

The end of a not always beautiful friendship

1951- European Coal and Steel Community

- Treaty of Paris signed by West Germany, France, Italy, Belgium, the Netherlands and Luxembourg.
- Britain’s response, Herbert Morrison, deputy prime minister: “The Durham miners won’t wear it.”

1957- European Economic Community

- Treaty of Rome signed by West Germany, France, Italy, Belgium, the Netherlands and Luxembourg.
- Britain’s response, Russell Bretherton, senior civil servant: “Totally unacceptable to Britain …. Messieurs, au revoir at bonne chance.”

1960s – UK turned away

- 1963: The UK’s first attempt to join the EEC vetoed by France’s General de Gaulle. Britain is “insular and maritime – how can she come into our system?”
- 1967: UK EEC membership supported by five EEC members but rejected by de Gaulle again, because of Britain’s “deep hostility” towards Europe.

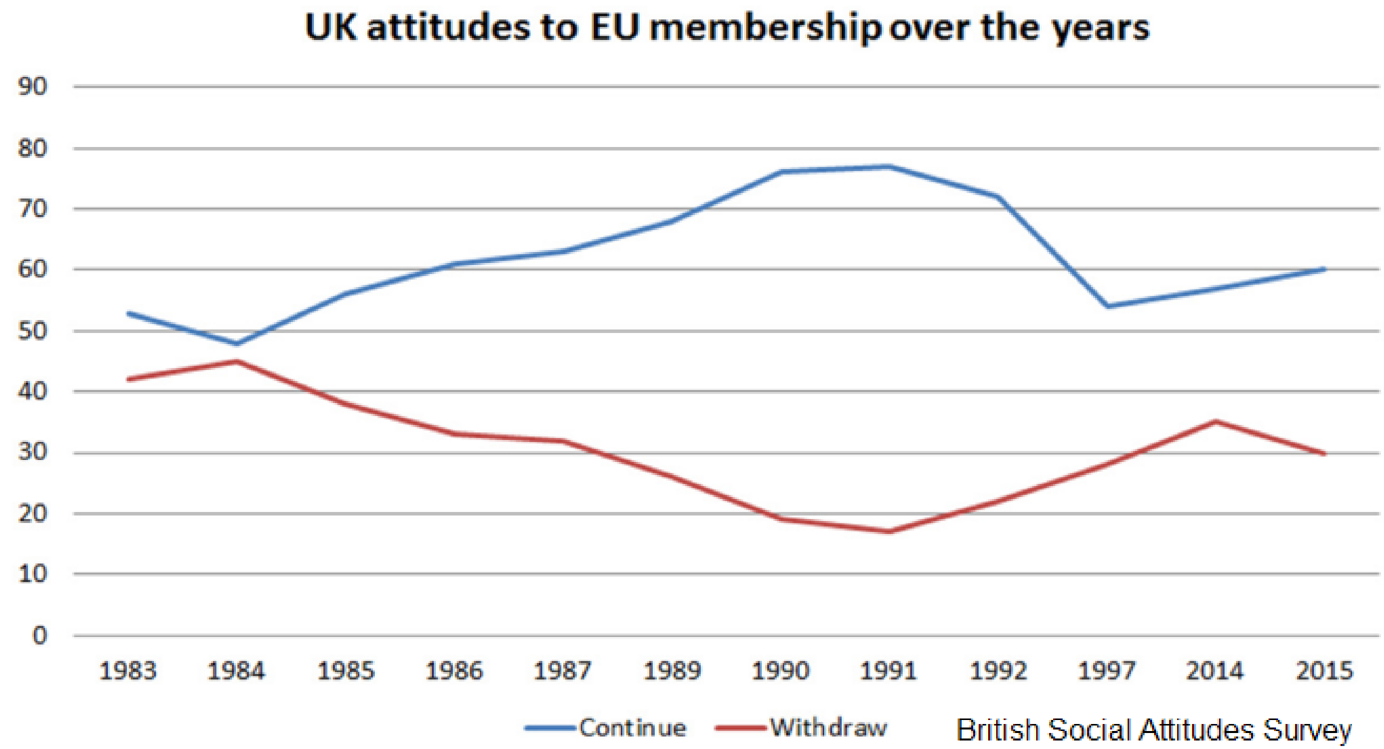
1970s – membership

- 1970: (UK, with Denmark, Ireland and Norway), begins entry negotiations – de Gaulle no longer French president.
- 1972: Treaty of Accession signed.
- January 1 1973: UK, Ireland and Denmark join, but not Norway.

Black Wednesday

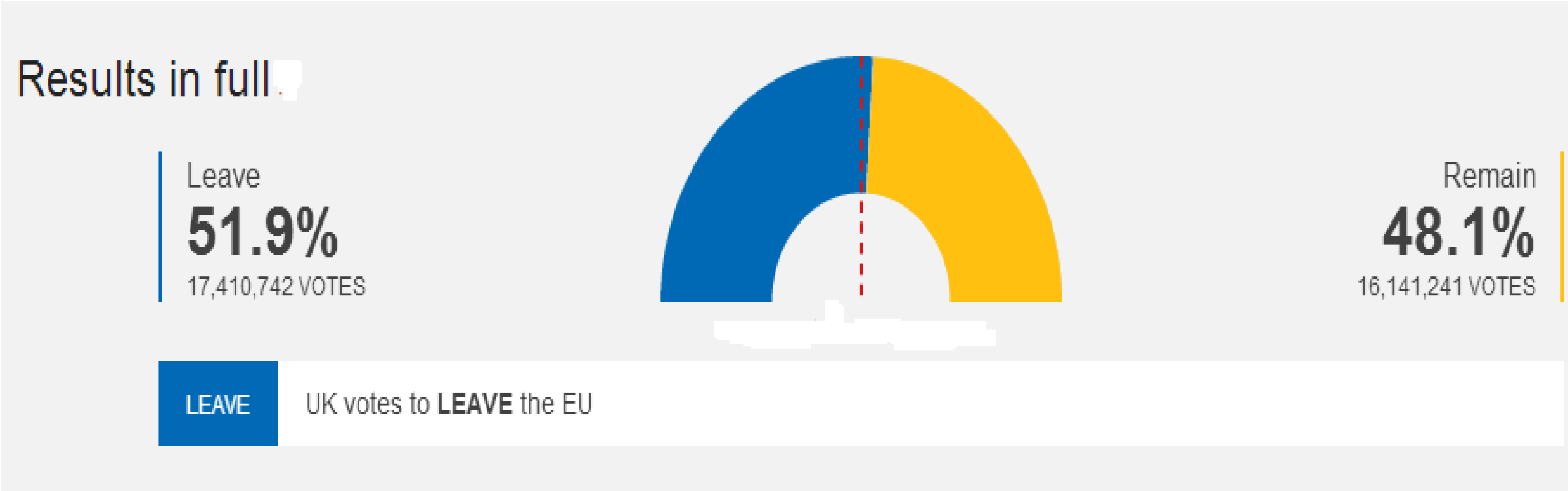
- Sterling comes under intense selling pressure in August-September 1992.
- The Bank of England intervenes heavily in an attempt to preserve Britain's ERM membership.
- Its efforts, and a threat to raise interest rates back to 15% on September 16 1992, fail.
- The pound is pushed out of the ERM. Within weeks an inflation target is adopted in place of the exchange rate target.

But still a clear majority in favour of staying in



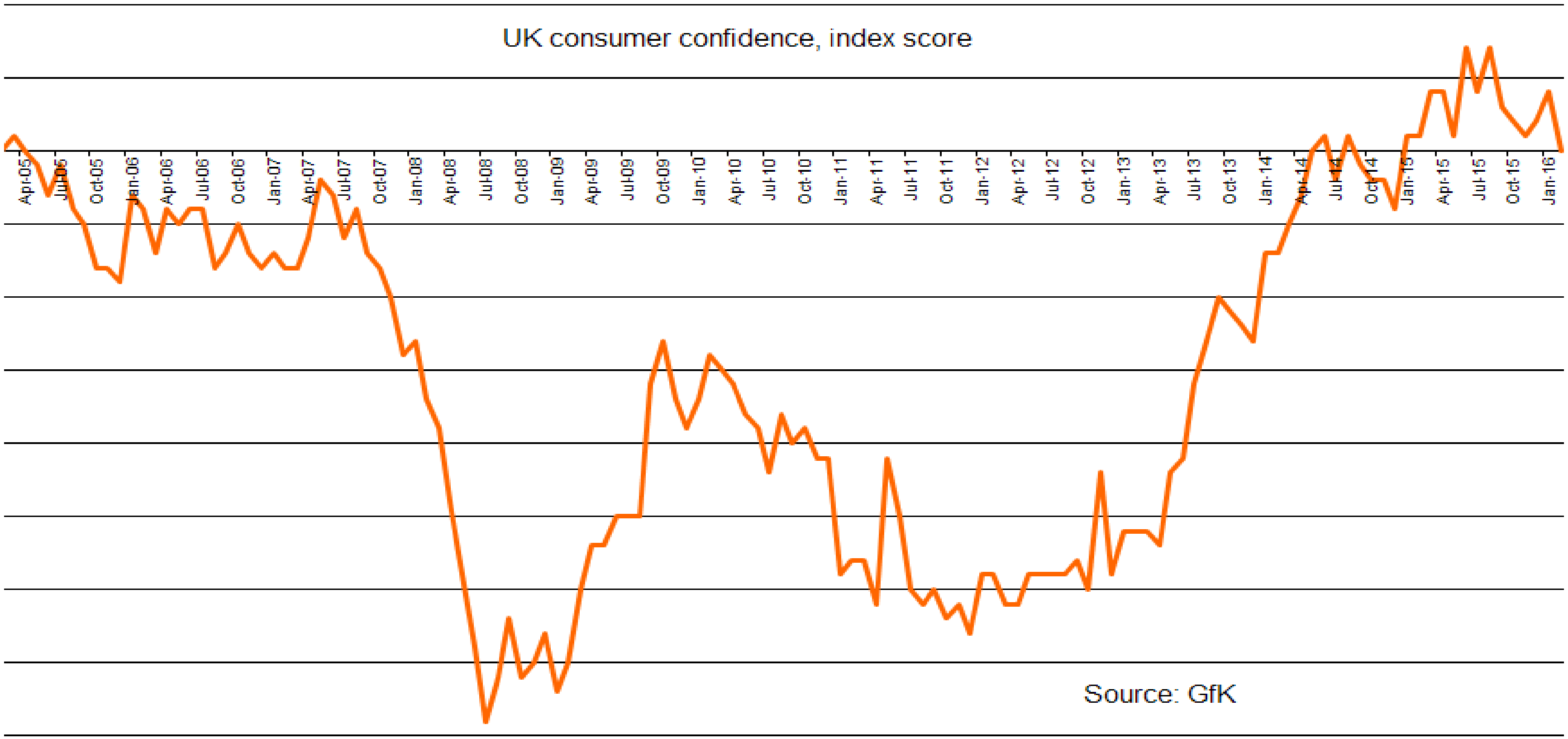
British Social Attitudes Survey

So what happened on June 23?

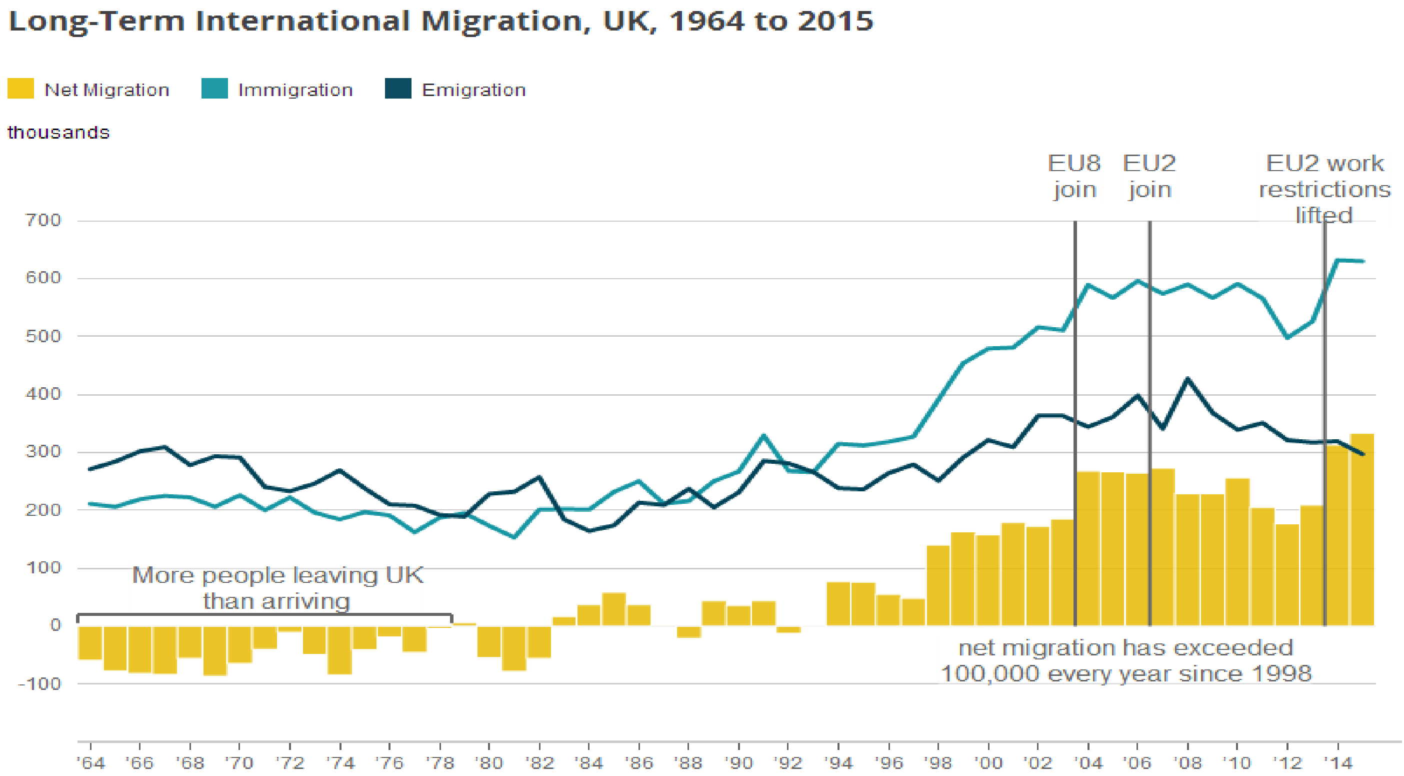


Greek and migrant crises exposed EU divisions

Maybe consumers were too confident



And high migration was the trump card for “Leave”

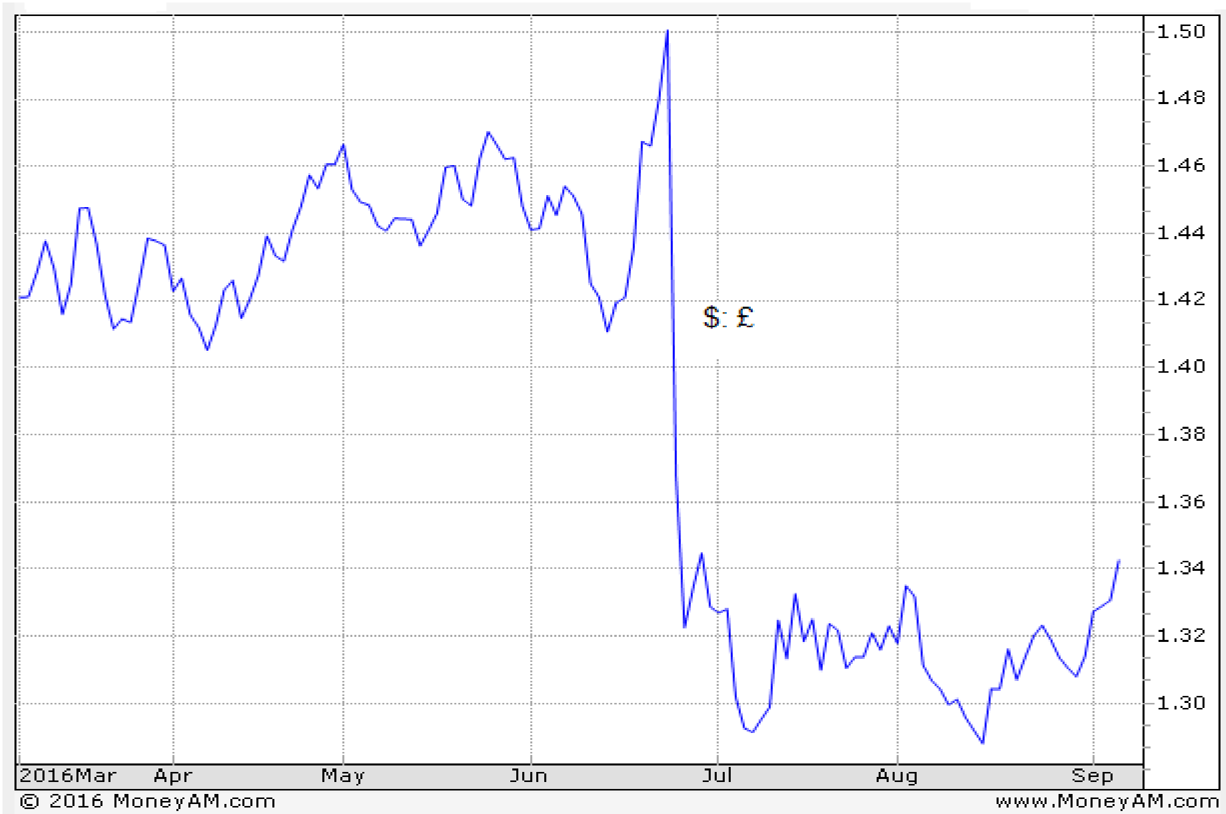


Where do we go from here?

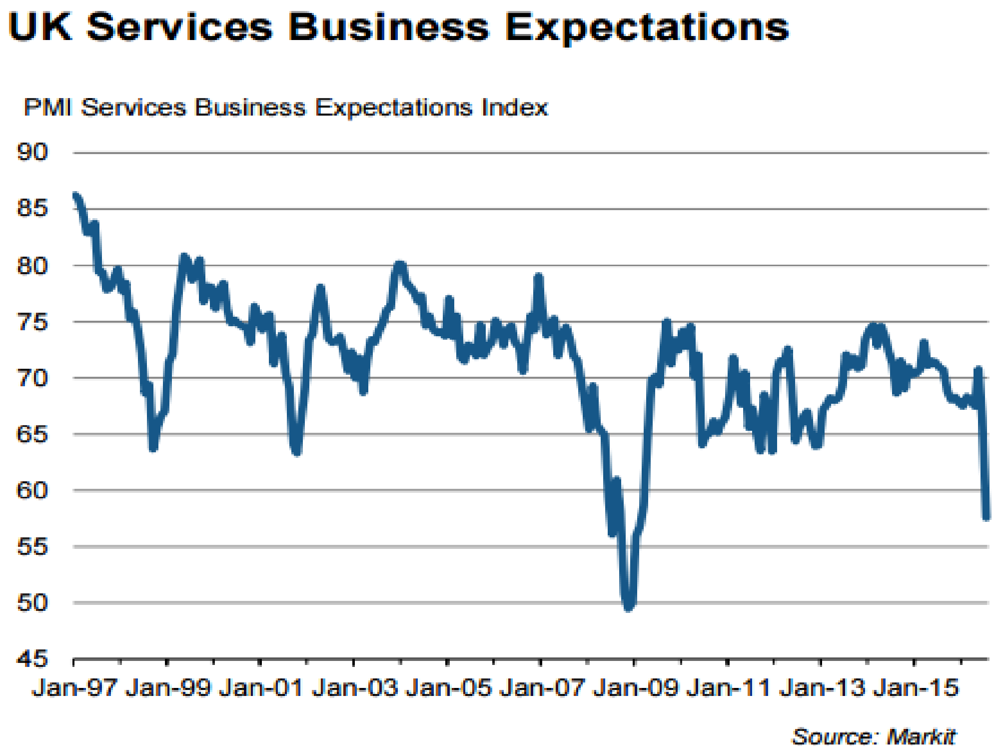
The three stages of Brexit

- The initial political, financial and economic shock.
- The invoking of Article 50.
- The post-Brexit settlement, both with the EU and with other countries.

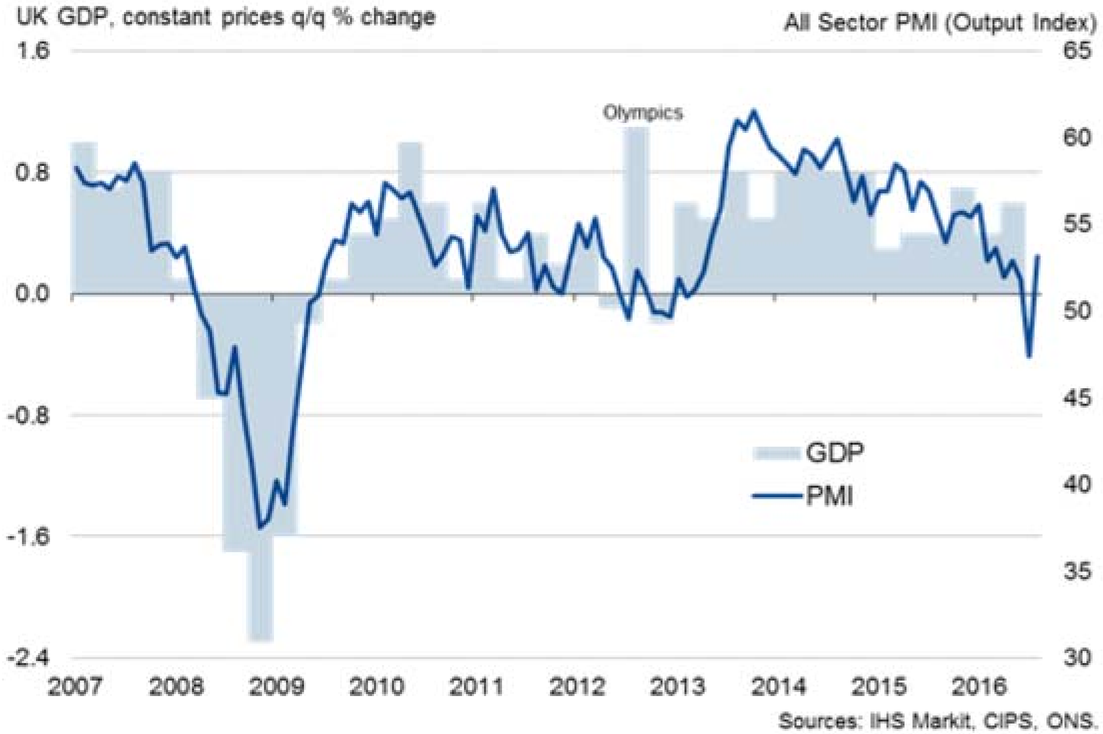
Sterling fell sharply on the referendum result



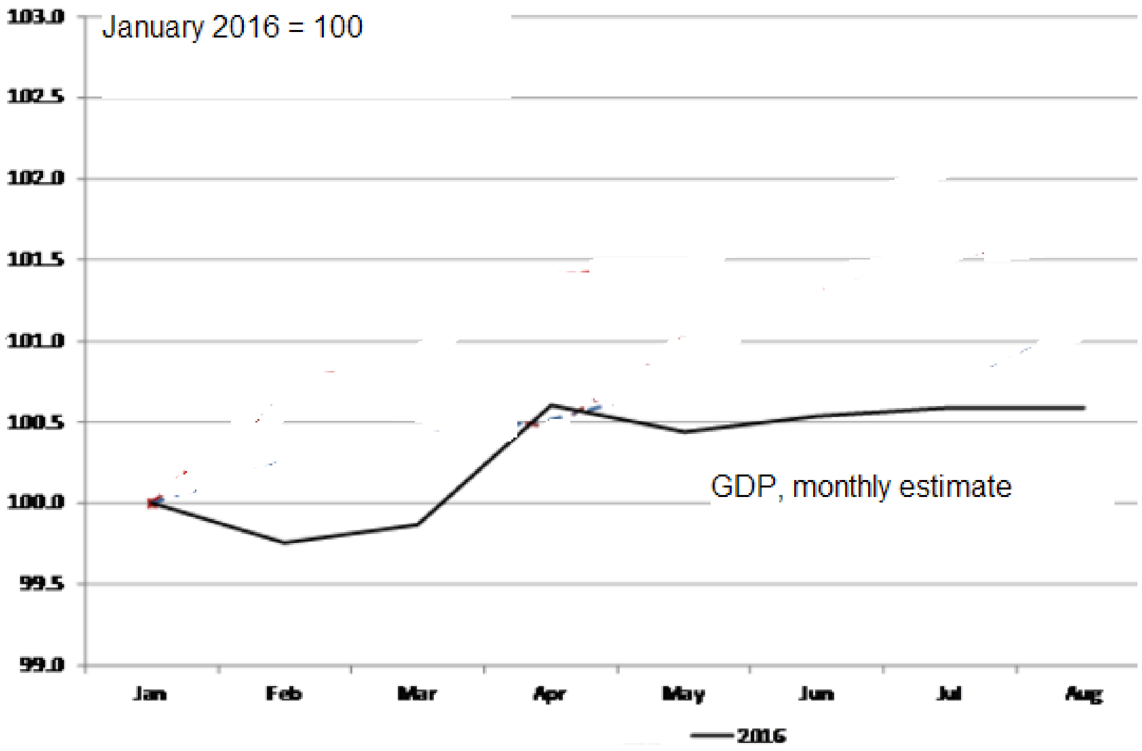
As did confidence and economic activity



Activity bounced back in August



But GDP looks flat



And forecasters expect slower growth

Average GDP growth forecasts, post-Brexit compared with pre-Brexit:

- 2016 1.6% (1.9%)
- 2017 0.7% (2.1%)

Source: H M Treasury

Britain's post-Brexit future is up in the air

Could Brexit not happen?

- Some months before Article 50 is triggered.
- Economic pain/broken promises shift the national mood.
- Some parties pledge to campaign in general election to maintain EU membership.
- But a very low probability on Brexit not happening – little sign yet of buyers' remorse. Brexit appears to mean Brexit.

It could be a very long process

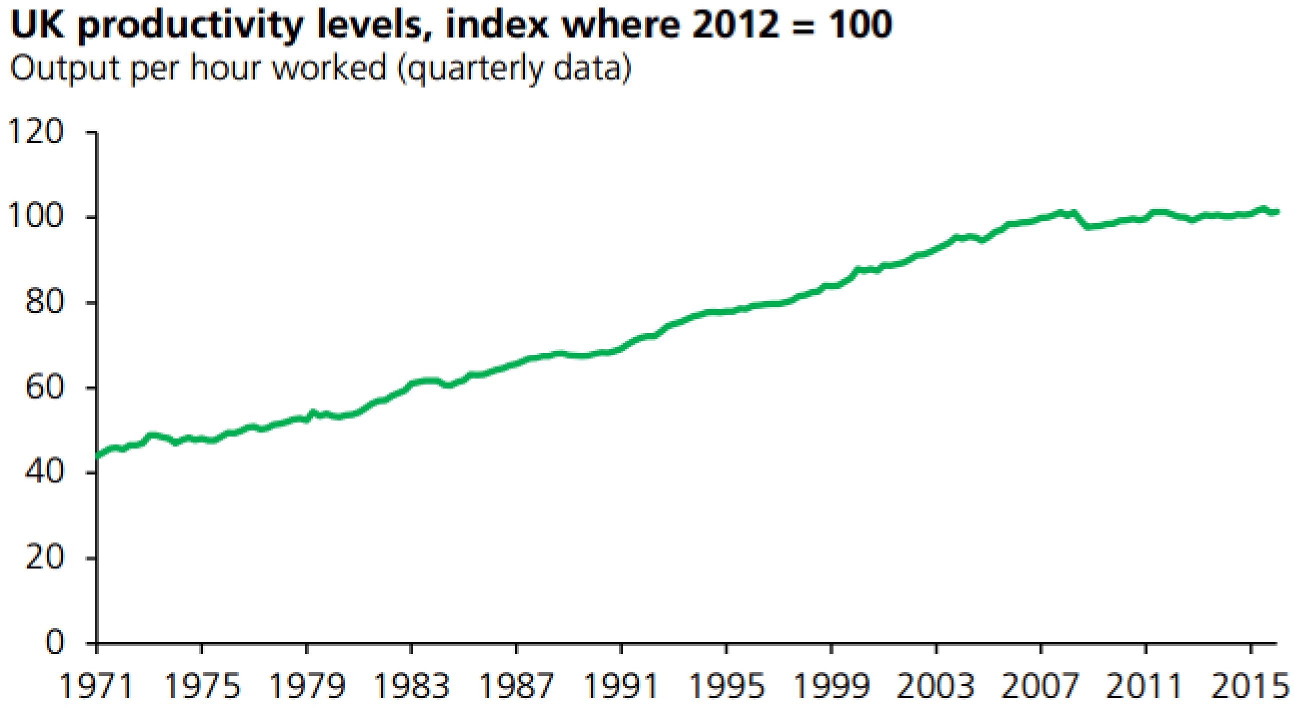
- Article 50 probable in first half of 2017.
- Two year process, but exit will not be complete; most single market rules/laws will remain in place.
- UK will first seek to negotiate quickly with friendly Commonwealth countries … Australia, NZ.
- UK deals with China, America, India, etc, will take very many years. UK’s comparative advantage in services threatens to be undermined.

Could it be a good Brexit?

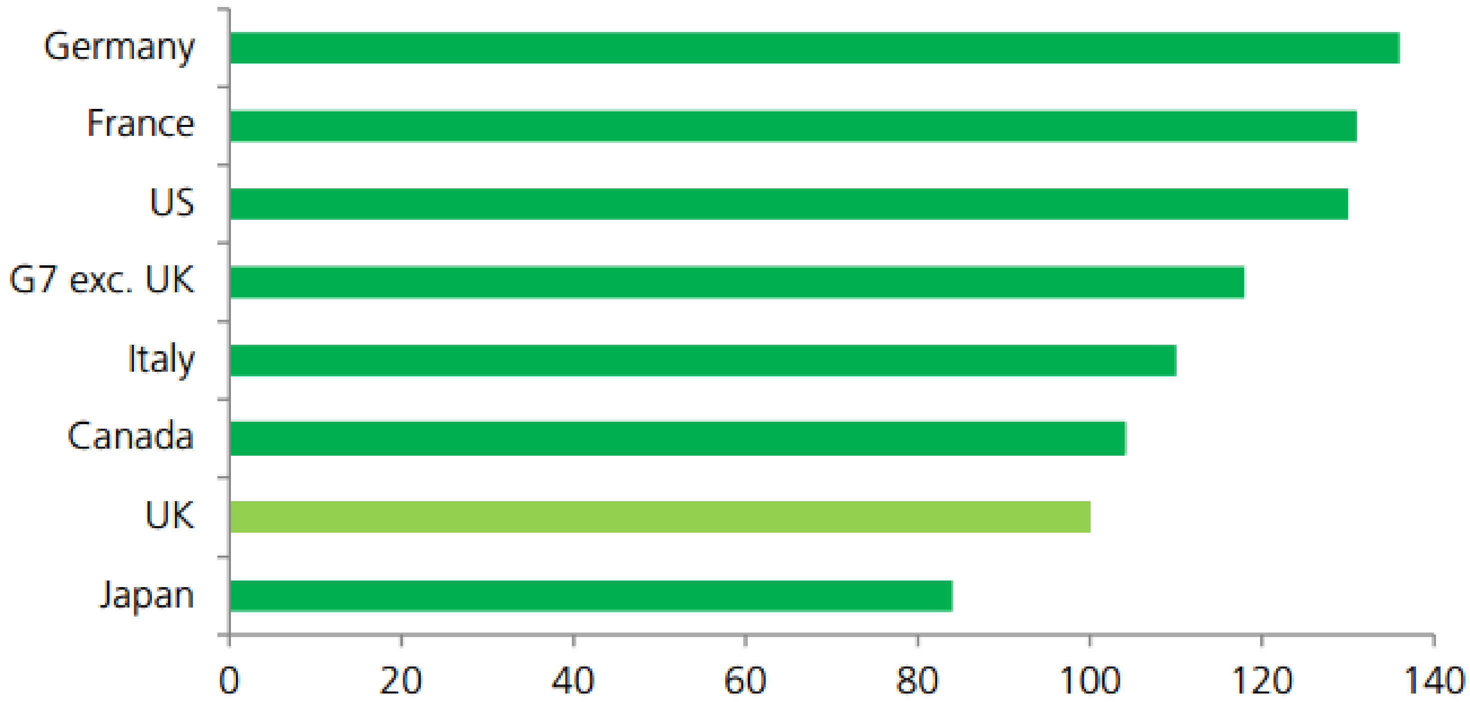
How to achieve a good Brexit outcome

1. Address the economy's underlying weaknesses.
2. Make the Article 50 process clear and transparent & aim for a Brexit which retains as many of the benefits of the single market and free movement as possible.
3. Work now to shorten post-Brexit trade negotiations with other countries.

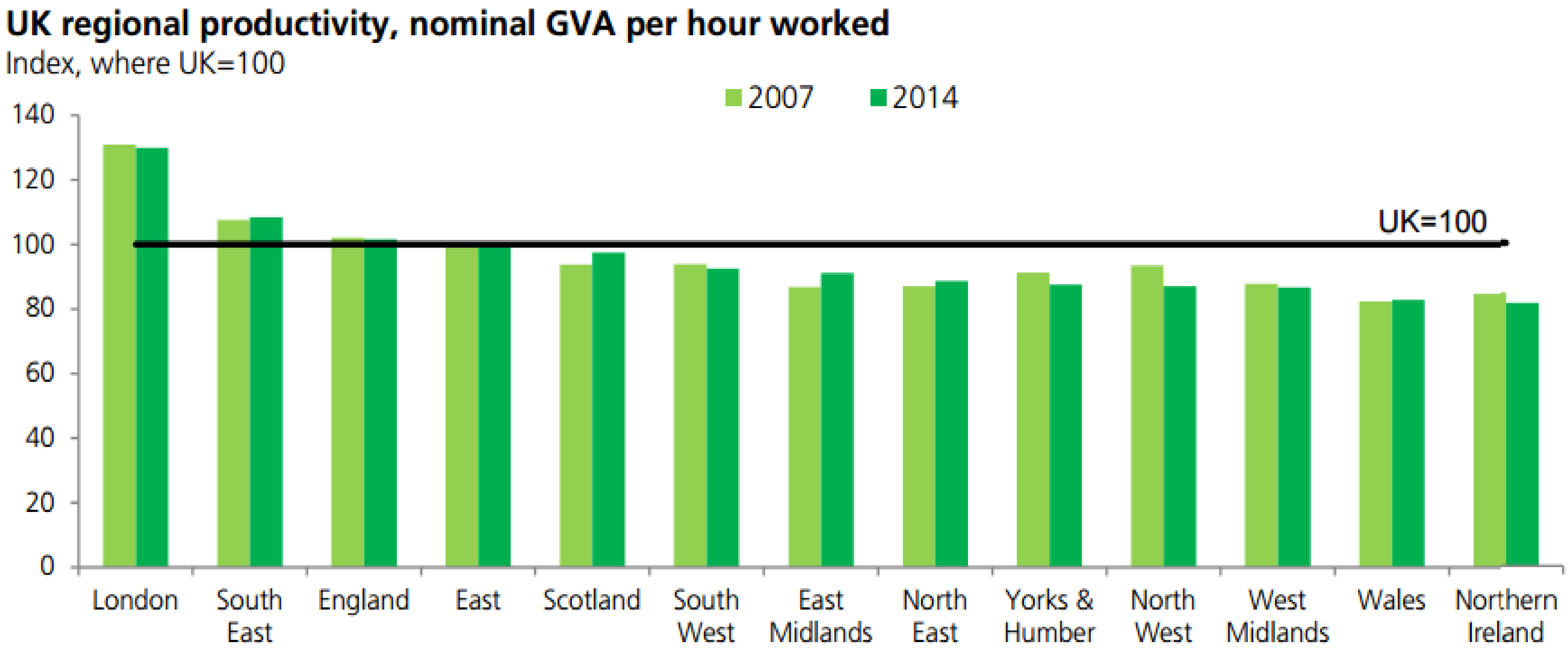
1. Productivity weakness has persisted



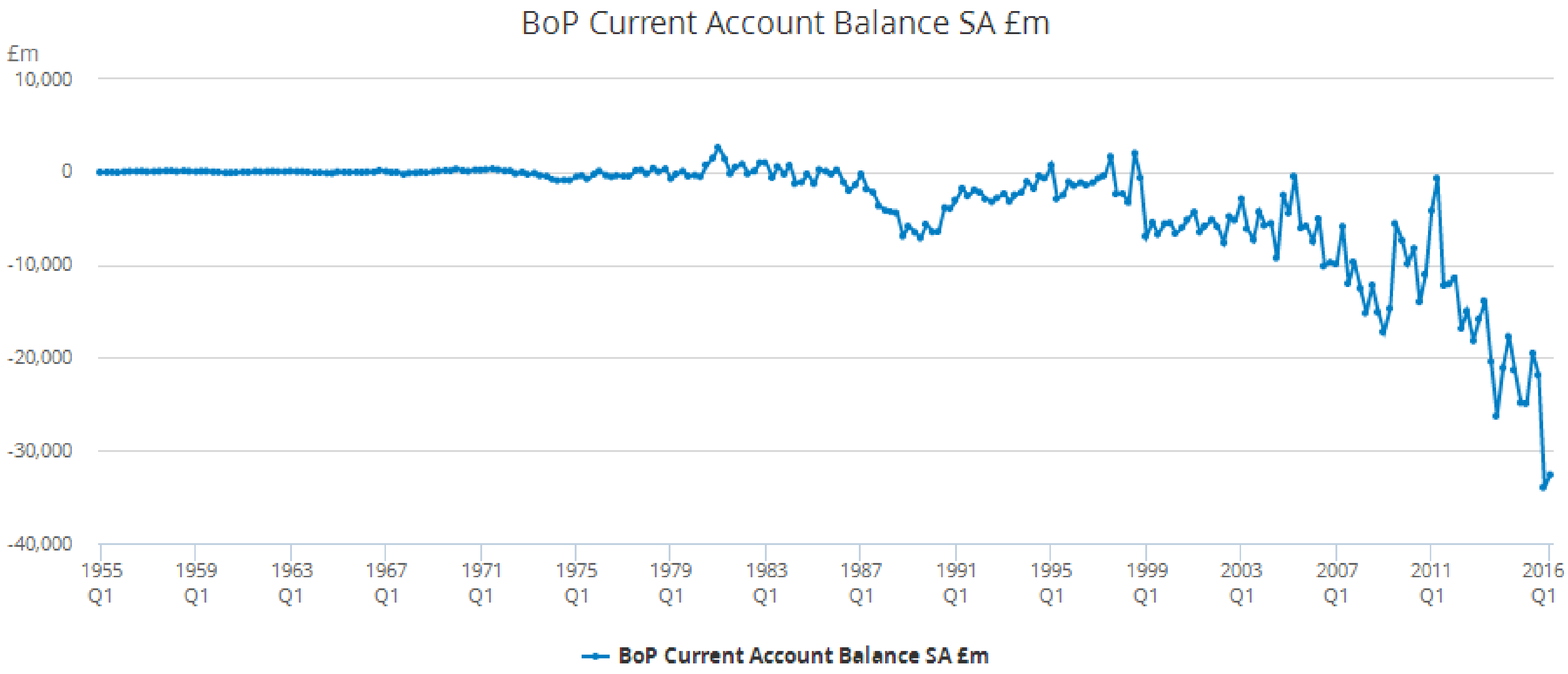
And is low by international standards



And is a regional as much as a national problem



A chronic current account deficit



This is a rather good economic roadmap

2. Theresa May's Article 50 dilemma (1)

- Pressure from hardline Brexit camp and rest of EU to invoke Article 50 early: Brexiteers fear the longer the delay the greater the risk of drift.
- Realistically, PM has until the middle of 2017.
- Even by then, however, the government may be struggling for a position that (a) is workable and (b) satisfies the hardline Brexit camp in the cabinet.

May’s dilemma (2)

- Businesses and households want clarity on the kind of deal Britain will be seeking from the EU, what it will mean for different sectors, and what it will mean for migration and residency rights.
- Theresa May will want to avoid her predecessor’s error, of revealing his hand too early, and over-promising and under-delivering.

The options

- Promise is of a tailored UK deal, with restricted free movement.
- Could be EEA with emergency brake or work permits.
- Will it be closer to Norway-style single market deal?
- Or nearer to Swiss-style bilateral deals (but no full financial services access)?

What business wants post-EU

- As close as possible to current membership of the single market.
- As quick a set of non-EU trade deals as is possible.
- Immigration arrangements that are better than current non-EU arrangements.

What business may get

- A prolonged period of uncertainty.
- An eventual deal that is clearly inferior to current membership of the single market.
- Only slow progress on non-EU deals
- A loss of Britain’s appeal to foreign direct investors.
- Immigration arrangements that are bureaucratic and inefficient.

Japan weighs in

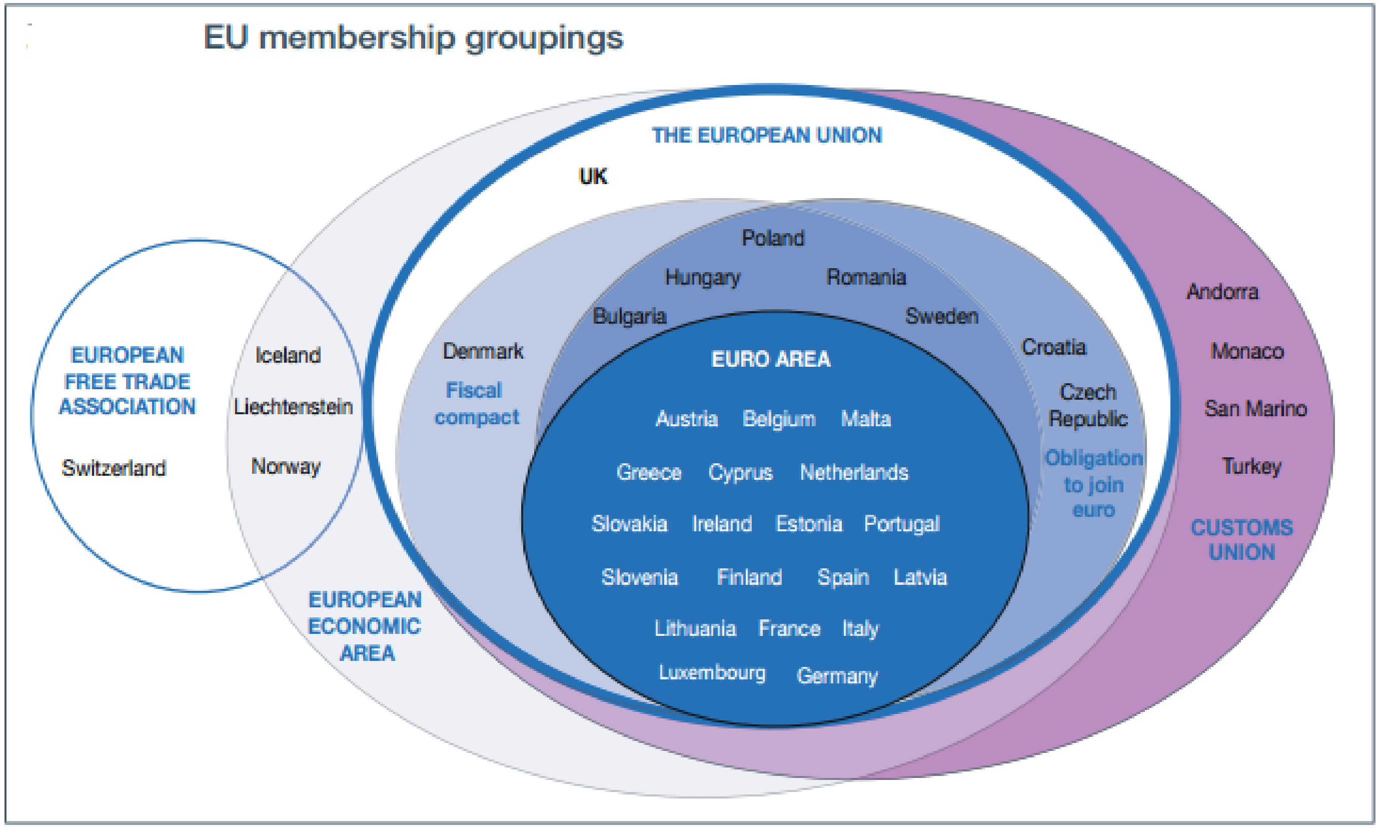
“A considerable number of Japanese businesses operating in Europe are concentrated in the UK. We have been informed of a variety of requests that these businesses have in relation to BREXIT including: maintenance of trade in goods with no burdens of customs duties and procedures; unfettered investment; maintenance of an environment in which services and financial transactions across Europe can be provided and carried out smoothly; access to workforces with the necessary skills; and harmonised regulations and standards between the UK and the EU.”

http://www.mofa.go.jp/files/000185466.pdf

The City

- Perhaps 20% of current investment banking activity at risk.
- Euro-denominated clearing will certainly migrate to the EU (Charlie Bean).
- Lloyd’s of London has warned that some activity could shift, barring acceptable post-EU deal.
- London could lose a lot of its lustre.

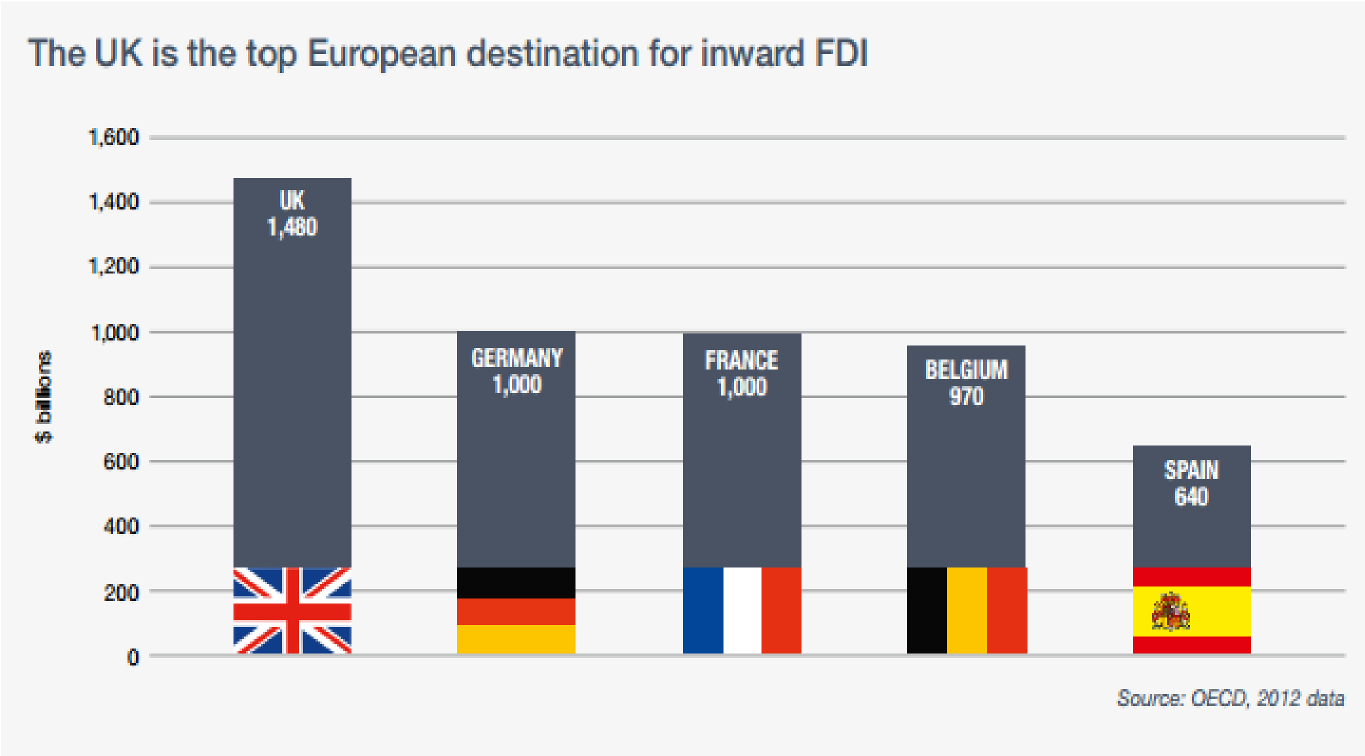
Where will Britain fit in?



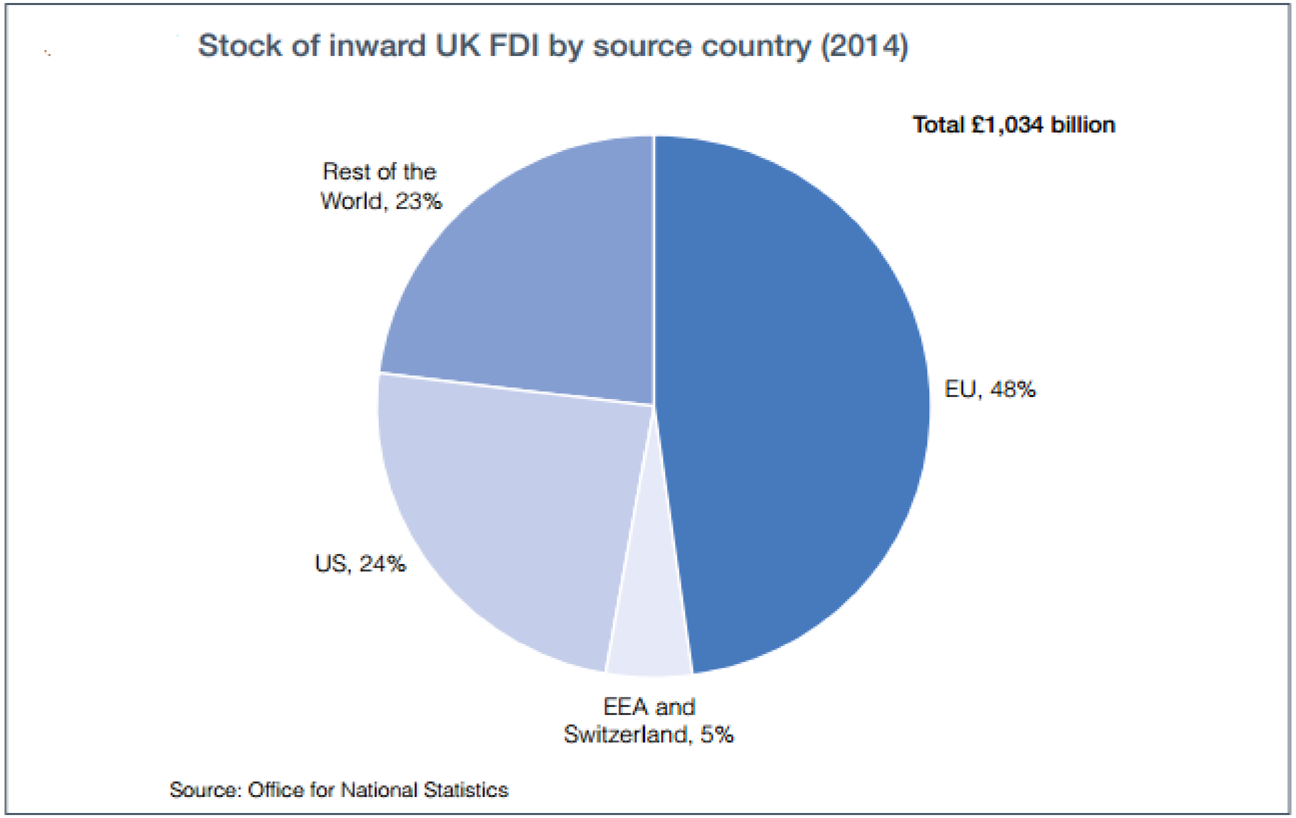
A single market-lite future?

- Theresa May has to quell pressure for a “hard” Brexit within her party.
- Repealing EU law on the UK statute book will be hard to achieve in 20 years, let alone two.
- She needs a settlement that is as close to existing single market arrangements consistent with soe control over immigration.
- But everybody needs to recognise that will be inferior to EU membership.

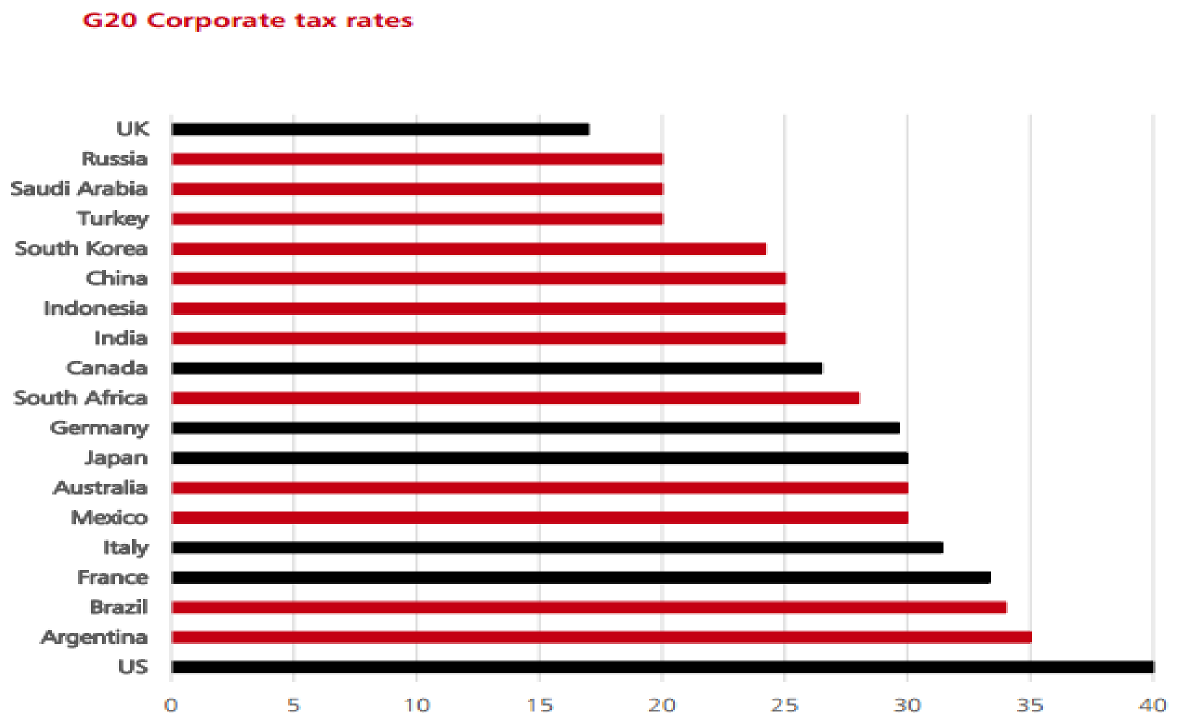
3. Britain needs to attract investment to prosper



Which means attracting it from inside and outside Europe

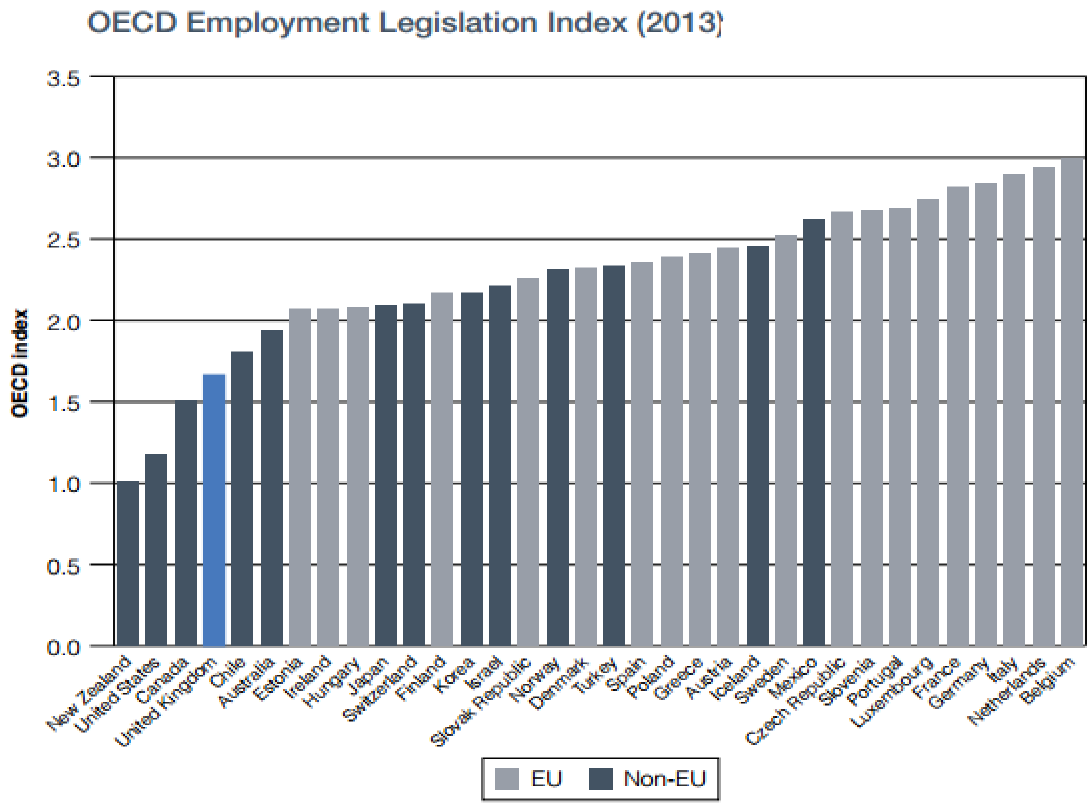


Corporate tax rates are already very low

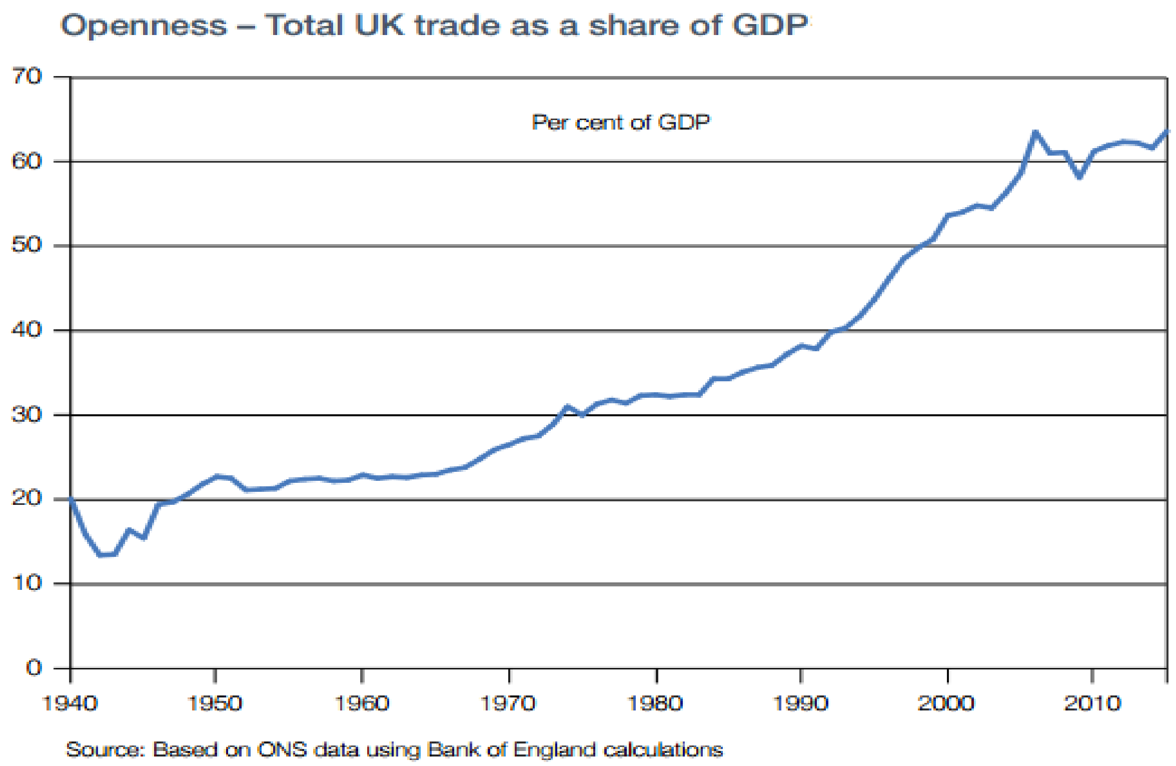


Notes: Based on legislated plans; G7 countries highlighted in black
Source: KPMG and HMT analysis

There will be no bonfire of red tape



So Britain will need good trading arrangements



And that won't be easy

- Multilateral trade negotiations are becalmed.
- The big bilateral deals – TPP and TTIP are in difficulty.
- World trade has struggled since the global financial crisis.
- The political backlash against globalisation is now backed by mainstream politicians (Trump <u>and</u> Clinton).
- This is not a great time for a new free trade champion to try to change the world – and expect to succeed.

So it could go either way

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