

After the EU Referendum: What Next for Britain and Europe?

Prof. Simon Hix

*London School of Economics, and
ESRC UK in a Changing Europe Programme*

 [@simonjhix](https://twitter.com/simonjhix)

Outline

1. Why did the UK vote to Leave the EU?

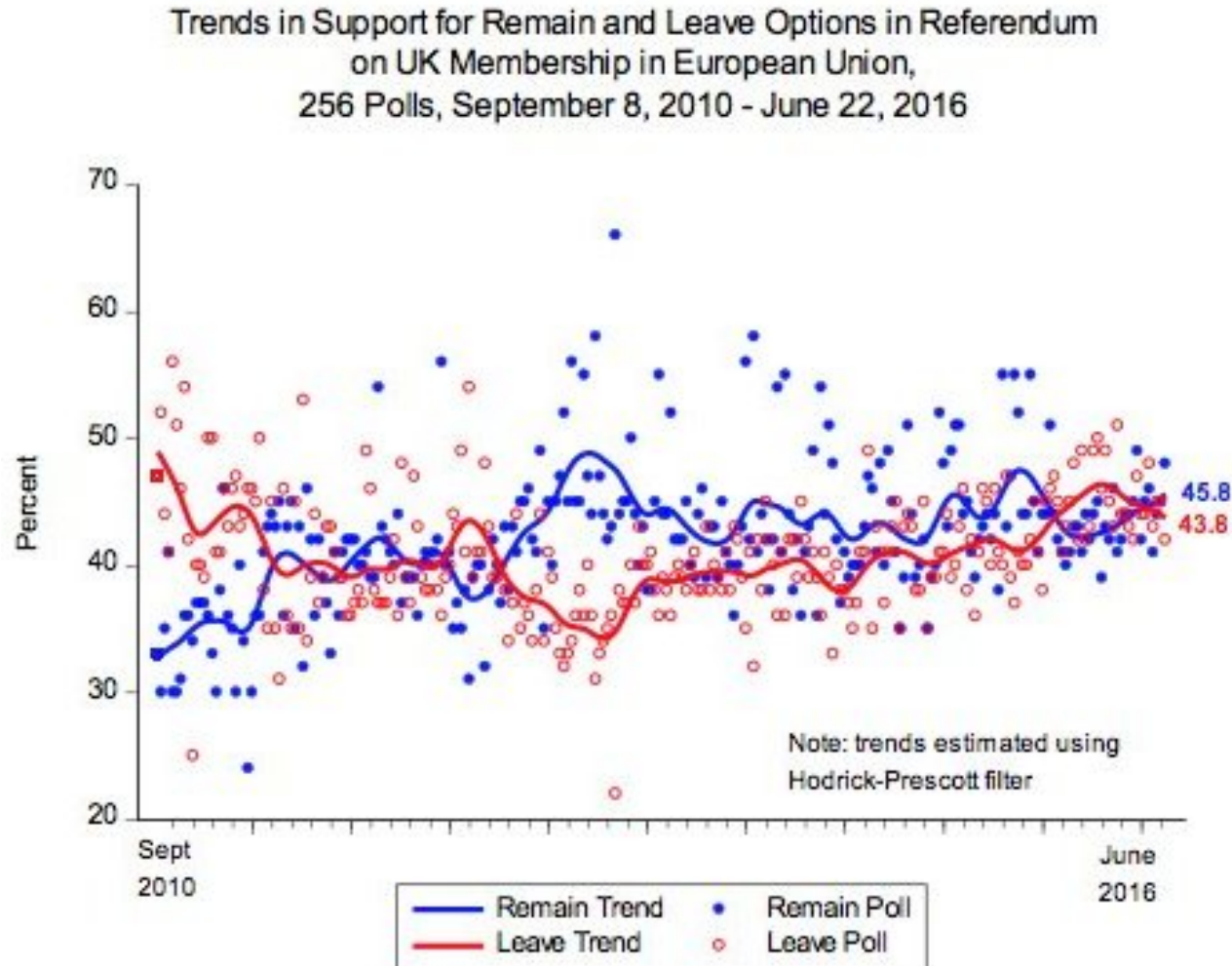
Why didn't "Project Fear" work?

The role of 3 i's: inequality, identity, immigration

2. What are/might be the consequences for British politics and the economy?

3. What is the best option going forward, and how might the UK and the EU get there?

What the Polls Forecast



Source:
Matthew
Goodwin

The Result

51.9% *Leave*

17,410,742

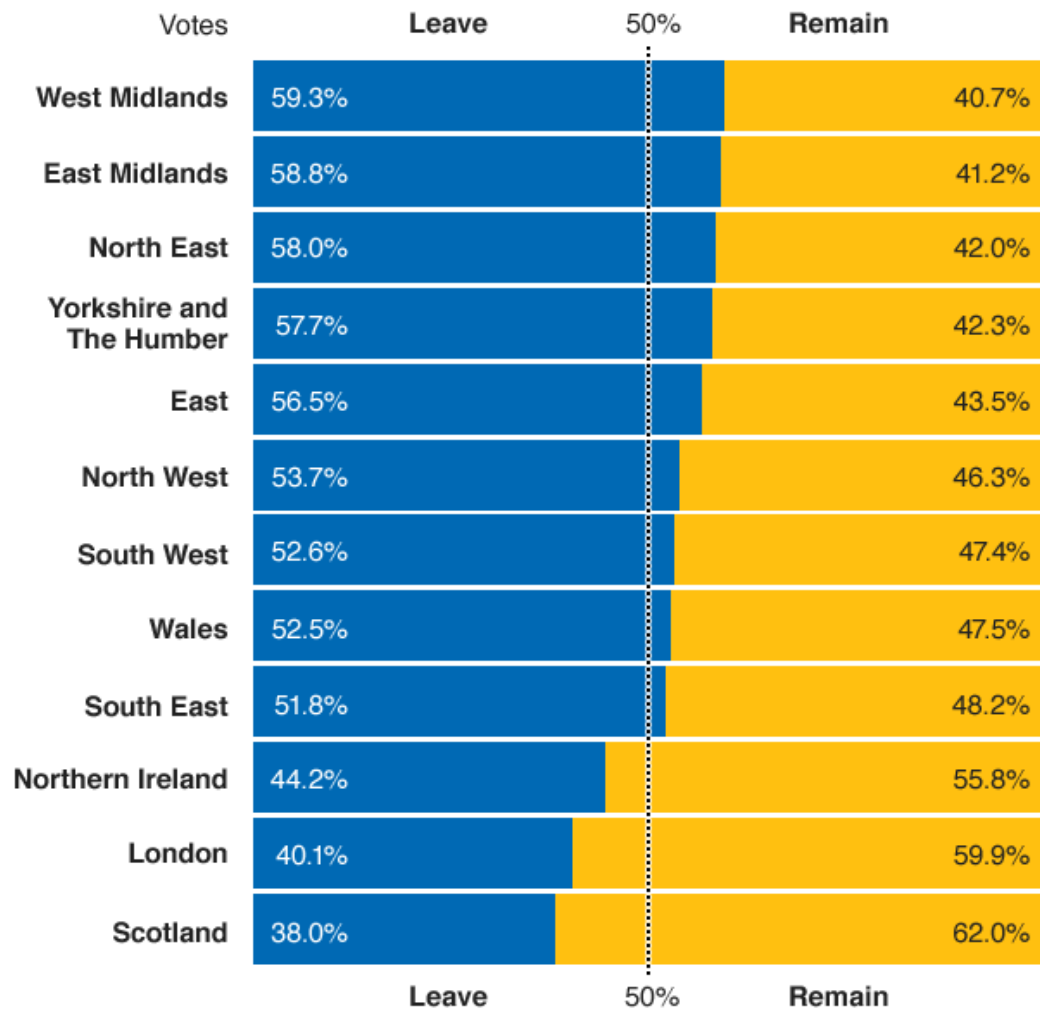
48.1% *Remain*

16,141,241

72% turnout

with big variations
on vote patterns by
across the country

How Leave won the referendum



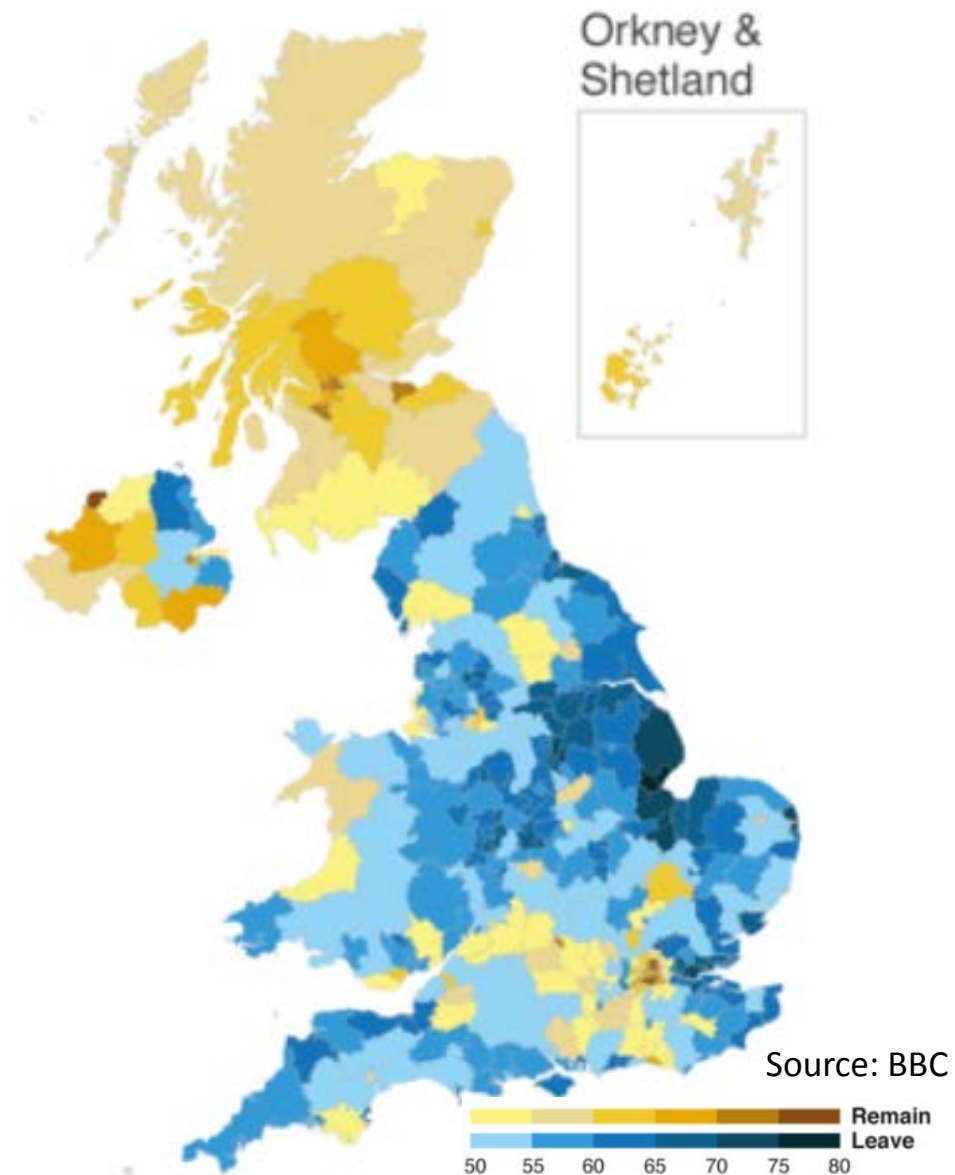
More Nuanced Geographical Divides

Leave

Rural England & Wales, small towns,
East Coast, North East

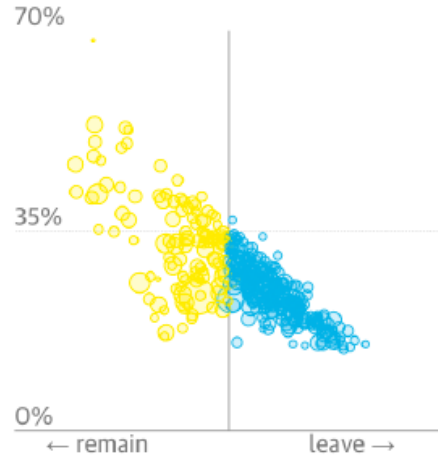
Remain

London, university towns,
more cosmopolitan areas in
South/Northern cities

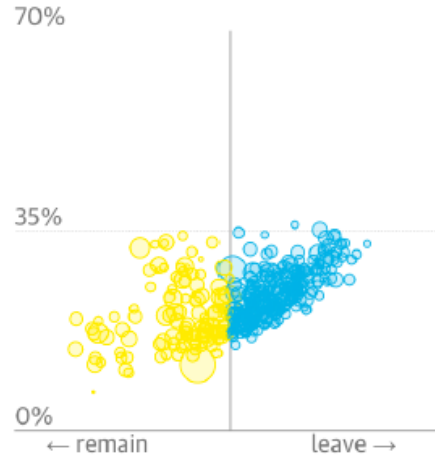


Social and Economic Divisions

% residents with higher education



% residents with no formal qualifications



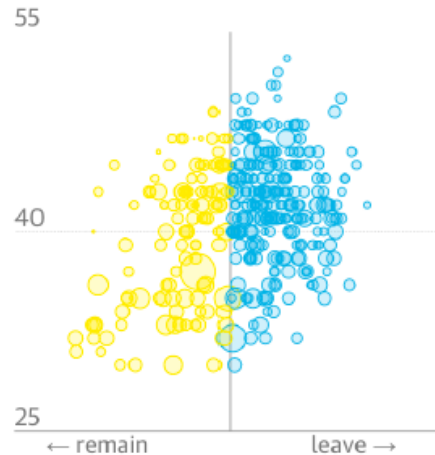
Median annual income of residents



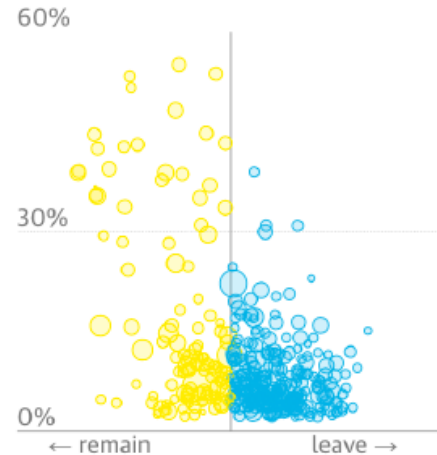
% residents of ABC1 social grade



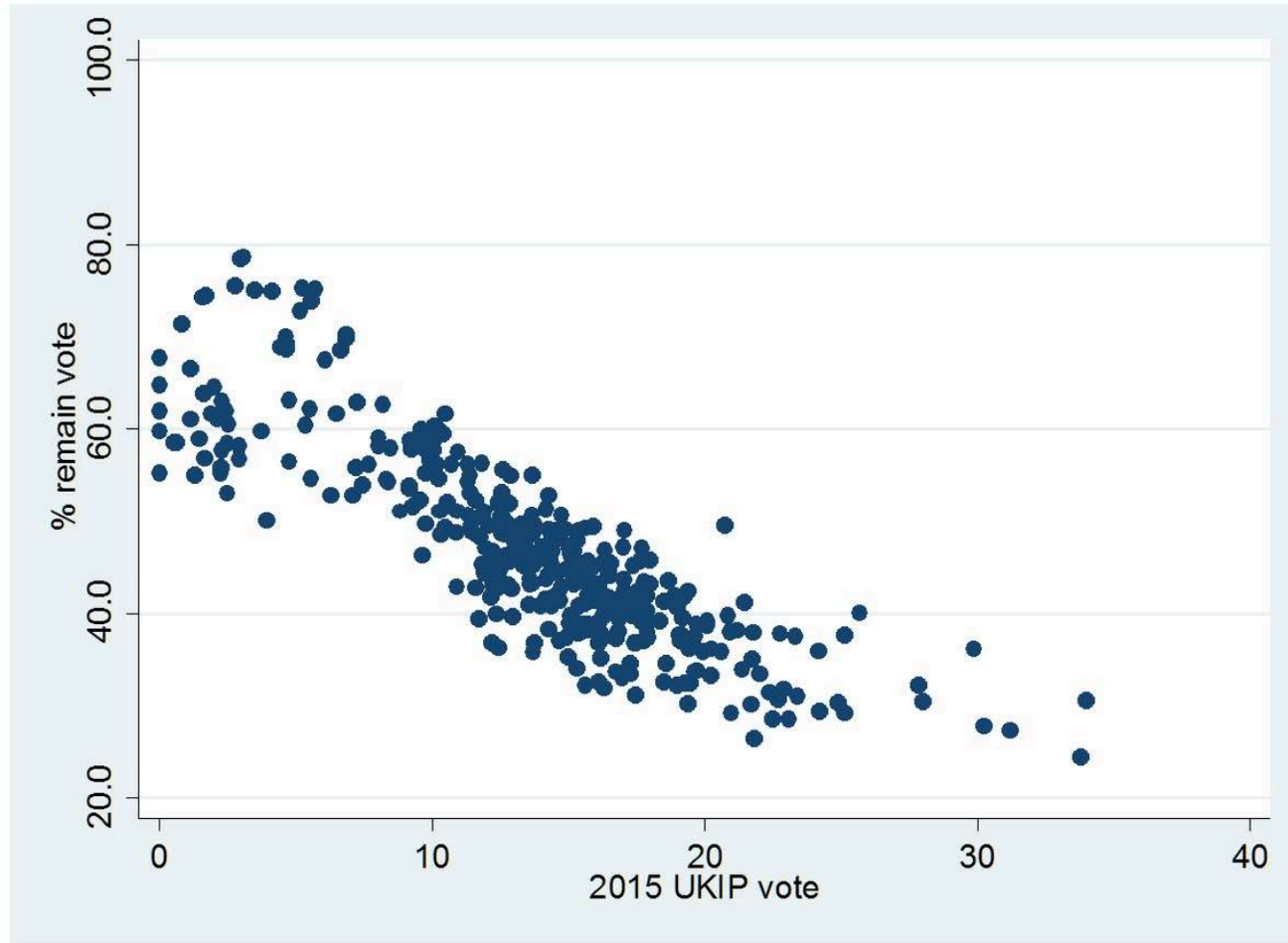
Median age of residents



% residents not born in the UK



UKIP Vote + 25% = Brexit Vote



Source:
Jon Mellon &
Steve Fisher

Cosmopolitanism vs. Localism

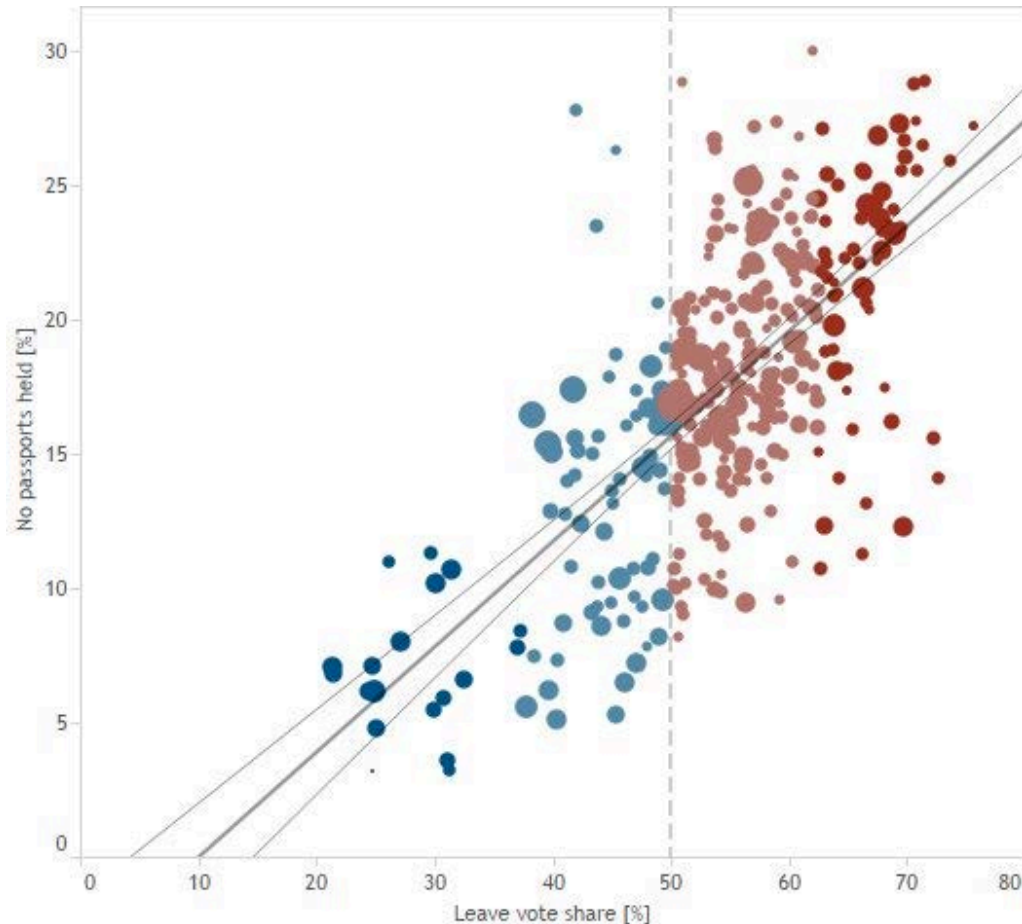


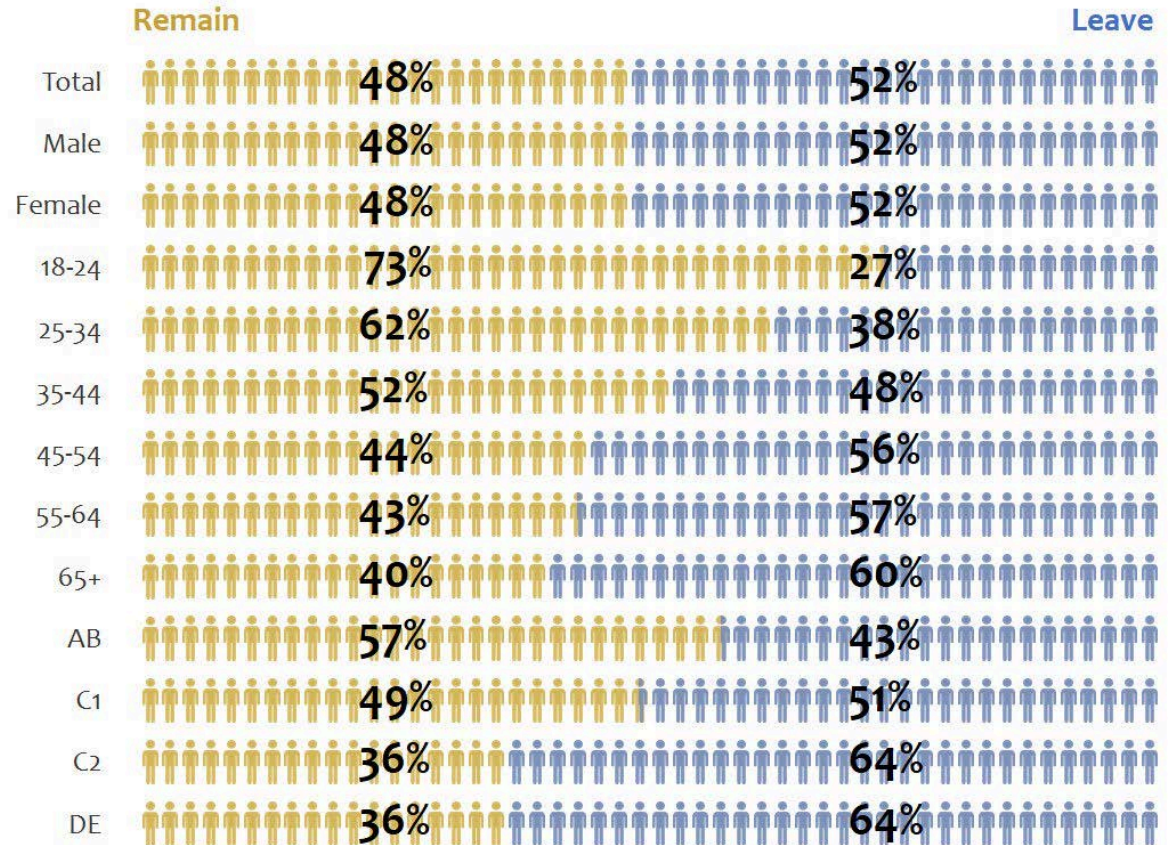
Fig: Share of population with no passports, versus vote share for Leave at the EU referendum, by local authority (England and Wales)

Source: ONS, Electoral Commission

Social Divisions at the Individual Level

Age
Social Class
Education

By demographic



“Inequality and Identity”, Matt Goodwin

	Average in 20 most pro-Remain Local Authorities	Average in 20 most pro-Leave Local Authorities
University degree	45%	16%
Professionals	42%	23%
“Non-White”	26%	5%
Pensioners (>65)	11%	20%
Median Income	£27,000	£18,000



Jamie Reed

@jreedmp



Following

It's an indictment of the UK that many of the poorest will vote to make their lives worse because they don't believe life can get better.

RETWEETS

183

LIKES

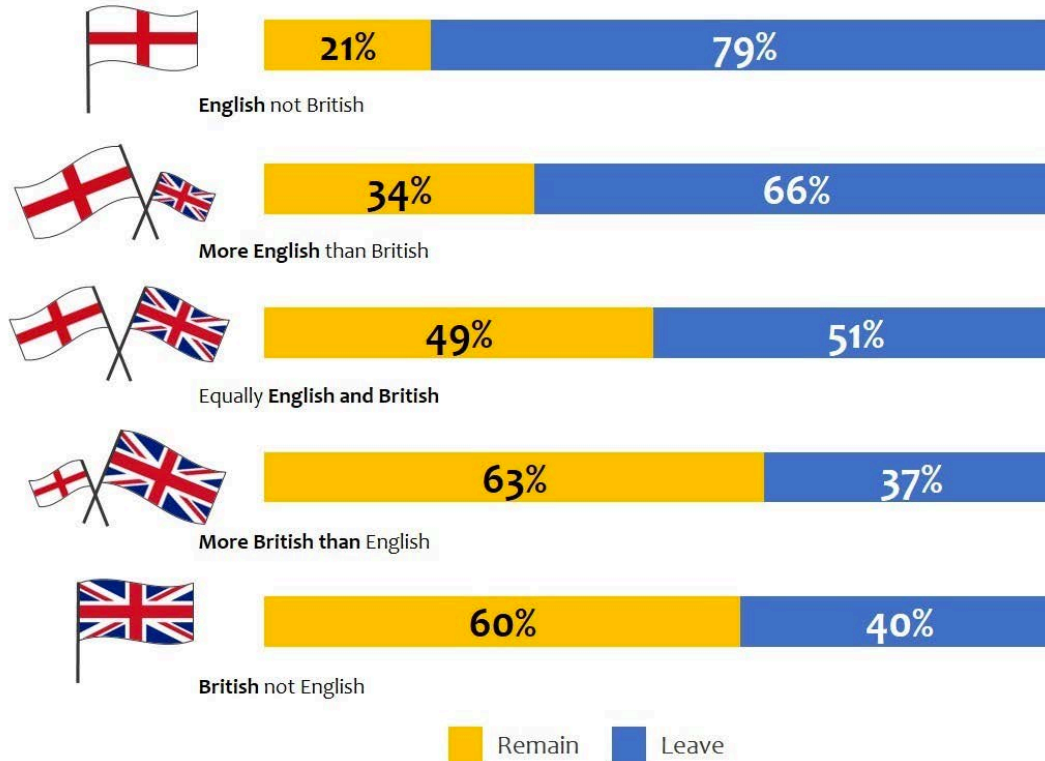
159



12:21 AM - 23 Jun 2016

The Roll of “English” Identity

Which, if any, of the following best describes how you see yourself?

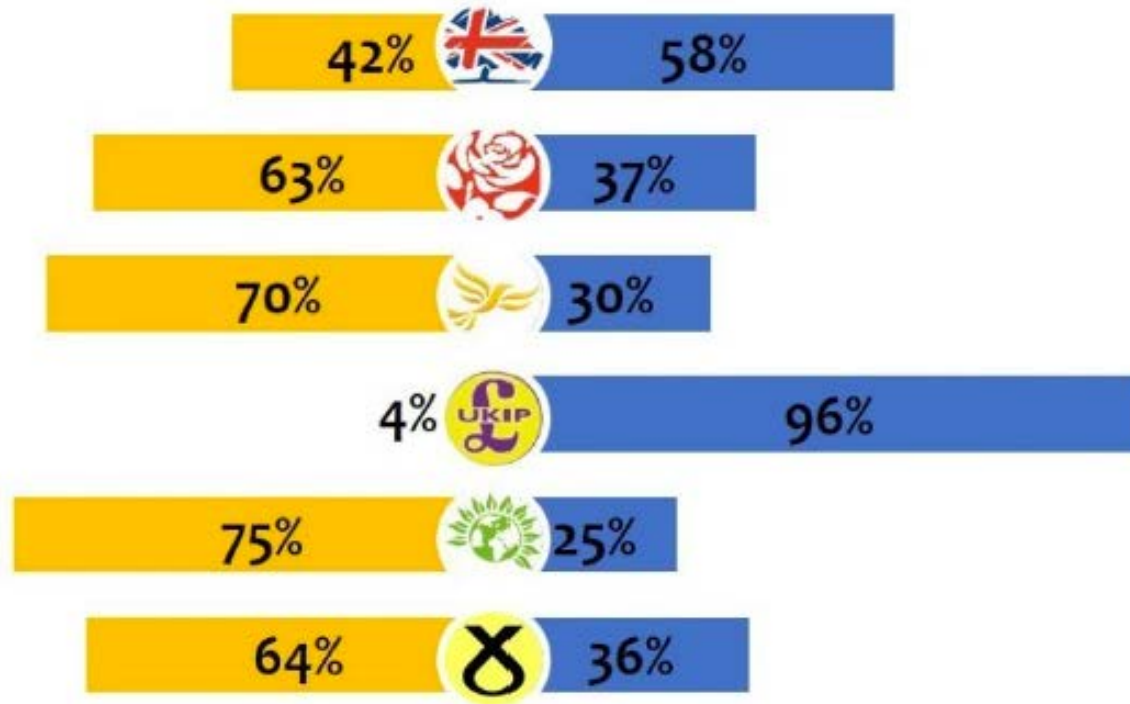


All Parties Are Divided (except UKIP!)

By 2015 GE vote

Remain

Leave

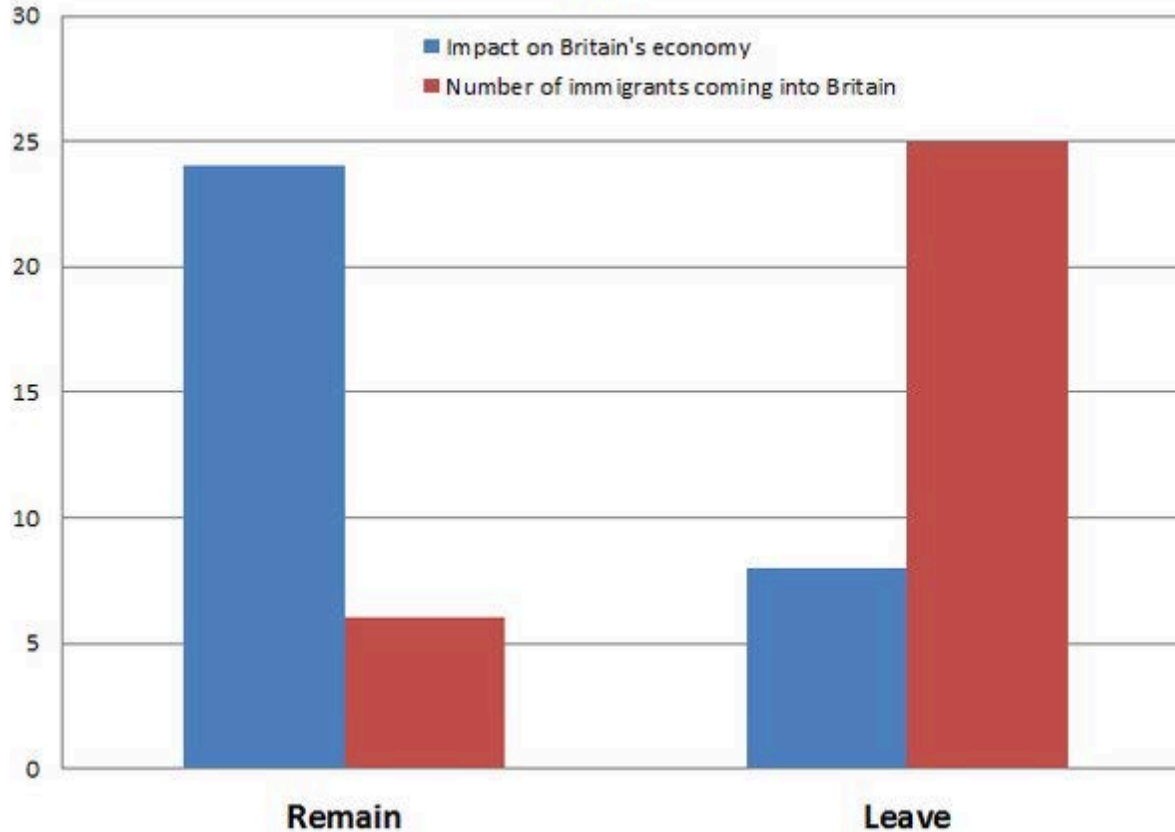


Lord Ashcroft Polls

[@LordAshcroft](#)

The Issues: Economy vs. Immigration

And which of these issues is the MOST important to you in helping decide which way to vote?



Source: Matthew Goodwin

Distributional impacts of immigration:

Wage pressures in certain sectors

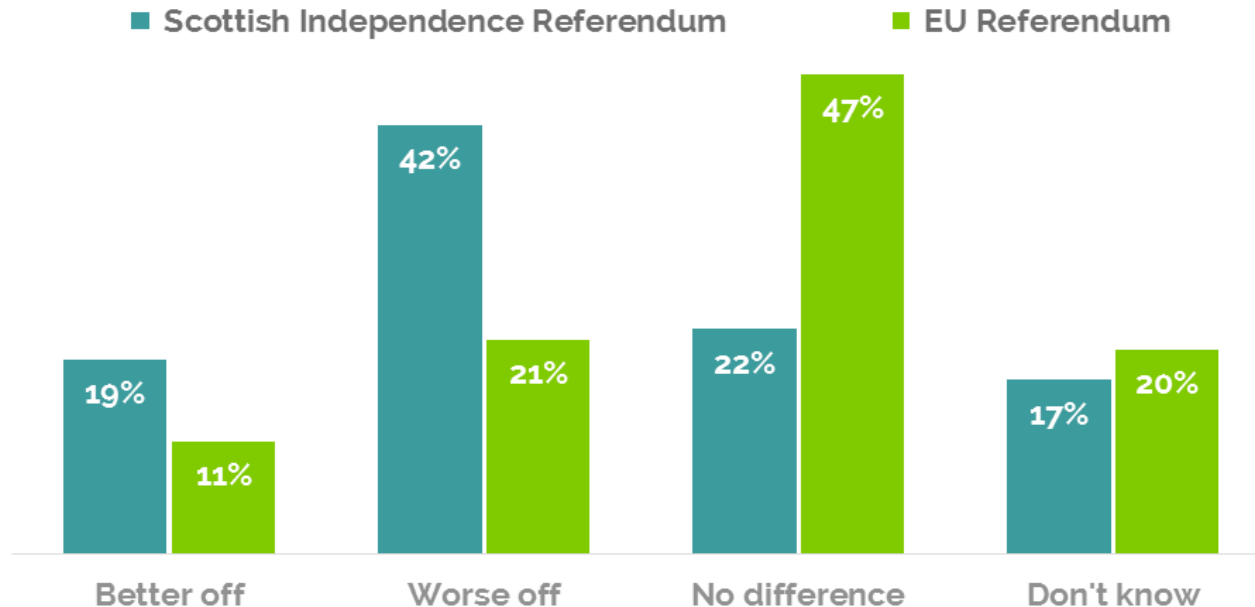
Pressure on public services: schools, NHS, housing

Social integration pressures

“Project Fear” worked in Scottish referendum but not Brexit referendum

Impact of Scottish independence/Britain leaving the EU on personal finances

Do you think you personally would be financially better or worse off if **Scotland became a independent country**/**Britain left the European** Union or would it make no difference?



YouGov Post Referendum Survey, 28 June

Support for a second referendum:

57% No, 31% Yes (but 61% of Remain voters want a 2nd referendum)

Expectations:

£350m will be saved and spent in Britain:

*34% Yes, 55% No (59% **Yes** amongst Leave voters)*

Immigration will be more tightly controlled:

*48% Yes, 42% No (75% **Yes** amongst Leave voters)*

We will be less safe once we leave:

*31% Yes, 53% No (83% **No** amongst Leave voters)*

People will be significantly worse off once we leave:

*44% Yes, 42% No (11% **Yes** amongst Leave voters)*

Two Versions of “Leave”

Nationalists

Leave.EU / GrassrootsOut

(UKIP, Farage)

anti-immigration, nativist,

English identity



Libertarians

VoteLeave (Boris/Gove, LabLeave, +)

sovereignty/controlling immigration

(*"Vote Leave: Take Control"*)

free trade, anti-EU budget/regulation



Immediate Consequences 1:

Political & Constitutional

Prime Minister resigns -> Conservative leadership election (by 2 Sept)

Labour leader no-confidence vote (172 to 40 MPs) -> leadership election

Early General Election (?), in Autumn 2016 or Spring 2017

Pressure in Scotland for independence (Polls: 54-59% support Independence)

Nicole Sturgeon in Brussels to discuss Scotland remaining in EU

Support in Brussels for Scotland remaining in the EU, e.g.

<http://www.bbc.co.uk/news/uk-scotland-scotland-politics-36649450>

Uncertainty in Northern Ireland -> Border? Unification referendum?

Immediate Consequences 2: *Economic*

£ fell to lowest level against
\$ since 1985

FTSE100 fell to 2007 level,
but then recovered

Banks starting to move staff
to Frankfurt, Dublin, Paris

Pause in investment
decisions -> job losses

EUR per 1 GBP

22 Jun 2016 10:15 UTC - 29 Jun 2016 10:15 UTC
GBP/EUR close: 1.20898 low: 1.19424 high: 1.31399



Immediate Consequences 3: *Social*

Explosion of spontaneous anti-immigrant attacks
leaflets through doors in Cambridgeshire
graffiti on Polish Social & Cultural Association in London
lots of anecdotes of personal attacks



Police confirm a 57% increase in incidents of “hate crimes”:
85 vs. 54 over same period 4 week ago

What is driving this (in addition to pent-up anger)?
People thought they were voting to “kick foreigners out”
Only vague commitments about permanent rights of EU citizens
in UK from prominent politicians

Longer-term Consequences?

Political & Constitutional

Collapse of the Labour Party?

If Corbyn wins again, could there be a split?

Labour could lose many seats to UKIP in Northern England

Independence for Scotland (to stay in the EU)

second referendum in 2019/2020?

Northern Ireland leaves UK? Referendum on unification with Ireland?

Devolved tax-raising power for London

Sadiq Khan: “London must take back control”

=> less money for rest of the country

UK in the world? Less important to US?

Although UK still on Security Council, in G8, G20, NATO etc.

Longer-term Consequences? *Economic*

Treasury & others estimate a 2-5% fall in GDP over next 5 years

Mid point => on avg. £2,500 per household worse-off than if Remain

Pressure on public finances because of falling tax revenues (esp. loss of banks)

=> higher deficits and/or more spending cuts and/or higher taxes

Inflation: falling Pound will lead to higher grocery & petrol prices

but, house prices will probably decline in line with lower income expectations

Lower regulation vs. battle over EU social (& environment) standards

Economists for Brexit: “elimination of manufacturing & increase in wage inequality”

Trade: declining trade with EU (currently 50% of UK trade)

but increased trade with rest of the world (UK-USA FTA?)

End of City of London as a global financial centre?

depends long-term UK-EU relationship (e.g. “passporting” rights)

What Now?

Article 50 of the EU Treaty

1. Any Member State may decide to withdraw from the Union in accordance with its own constitutional requirements.
2. A Member State which decides to withdraw **shall notify the European Council of its intention**. In the light of the guidelines provided by the European Council, the Union shall negotiate and conclude an agreement with that State, **setting out the arrangements for its withdrawal, taking account of the framework for its future relationship with the Union**. That agreement shall be negotiated in accordance with Article 218(3) of the Treaty on the Functioning of the European Union. It shall be concluded on behalf of the Union by the Council, acting by a **qualified majority**, after obtaining the **consent** of the European Parliament.

....

Art. 50 continued

3. The Treaties **shall cease to apply to the State in question from the date of entry into force of the withdrawal agreement or, failing that, two years after the notification referred to in paragraph 2, unless the European Council, in agreement with the Member State concerned, unanimously decides to extend this period.**

4. For the purposes of paragraphs 2 and 3, the member of the European Council or of the Council representing **the withdrawing Member State shall not participate** in the discussions of the European Council or Council or in decisions concerning it.

5. If a State which has withdrawn from the Union asks to rejoin, its request shall be subject to the procedure referred to in Article 49.

Medium-Term: “Norway Option”?

To minimise economic, political and social risk, the UK should request to move into the **European Economic Area (EEA)**, until a longer-term solution is available

EEA => part of the single market (free movement of goods, services, capital, and people), including *financial services passporting*

But, no direct access to ECJ, for example for Treaty interpretations
very important for financial services

Freedom of Movement of People -> EEA means free movement,
but the EEA Agreement includes a “Safeguarding provision”, that could be adapted to allow for a mutual quota system

e.g. monthly quota on work permits for EU citizens in UK & UK citizens in EU

Problem with the “Norway Option”

House of Commons Foreign Affairs Committee (2013) *Future of the European Union*, 11 June 2013, HC 87-I

“Norway and Switzerland ... are in practice obliged to adopt EU legislation over which they have had no effective say. ... On our visits to Oslo and Berne, we gained the impression that both Norway and Switzerland were prepared to accept what they acknowledge to be a ‘democratic deficit’ ... as the ‘price’ for their continued access to (parts of) the Single Market However, our interlocutors in both Berne and Oslo largely advised the UK to remain inside the EU, as a way of retaining influence over the legislation that it would be obliged to adopt if it remained part of the Single Market.”

Longer-Term ?

“Associate Membership” => some form of common decision-making?

UK-EU Free-Trade Agreement

an FTA is just an agreement to trade in a sub-set of goods and services => far less “open” than the single market

No agreement => UK would become a normal member of the WTO

zero/low tariffs on many industrial goods

but high tariffs on some goods & non-tariff barriers (standards) on services

2 issues will dominate (*Boris Johnson: “I want to have my cake and eat it”*):

1. Loss of control: accept rules of EU to access single market (“passporting” / ECJ)
2. Free movement of people between EU and UK

What about security => a new EU-UK “Security Agreement” (within NATO)?

Issues from the EU's Side: Economics

Angela Merkel: “I see no way to reverse this ... UK cannot cherry-pick”

=> access to single market means accepting free movement of people

=> EU will make rules for EU: UK must accept that, if wants access

UK would be EU's largest external trading partner

16% of EU exports to UK vs. 15% of EU exports to US

UK is Germany's third largest trading partner

7% of German exports (below France and US)

But EU trade with UK is only 2-3% of EU GDP, whereas UK trade with EU is 18-20% of UK GDP => EU in a stronger bargaining position than UK

Single market is more important for services than goods (already low tariffs). UK operates a large surplus in services with EU, so needs access to single market

Issues from the EU's Side: Politics

Need to make it look painful, to avoid “contagion”

e.g. to Denmark, Sweden, Netherlands, Italy

Strong pressure not to undermine the “four freedoms”

including free movement of people

Any final agreement will require unanimous agreement between all 27 member states, and domestic ratification, including referendums (e.g. France) => could take a long time & be derailed

Battle over the future of the EU: deeper integration vs. more flexibility

French Presidential election in 2017 -> EU determined to stop Le Pen

Summary

UK was never fully committed to the EU project

e.g. UK not in Euro or Schengen, so not involved in key decisions about the Eurozone crisis or the migration crisis

Britain (esp. England & Wales) voted decisively to leave the EU
driven mainly by “3 i’s”: inequality, identity, immigration

Best hope is a UK-EU relationship link Canada-USA relationship
free trade, close economic partners, close security partners

UK choice: Access to single market *or* Controlling immigration?

Choosing full single market access without immigration controls will anger people who thought they were voting to “restrict immigration”
=> this will need political leadership & flanking policies to deliver

Remember Where We Started

“The future treaty which you are discussing has no chance of being agreed; if it was agreed, it would have no chance of being ratified; and if it were ratified, it would have no chance of being applied. And if it was applied, it would be totally unacceptable to Britain. You speak of agriculture, which we don't like, of power over customs, which we take exception to, and institutions which frighten us. Monsieur le president, messieurs, au revoir et bonne chance.”

*Russell Bretherton, British Foreign Office
representative at a meeting of the Spaak
Committee, November 1955*

