# The Implications Of Brexit On The Global Economy

The history between the United Kingdom (UK) and the European Union (EU) is rocky, long, and complicated. This research paper will introduce the history of the UK with respect to its alliance with Europe, and later seek to address the potential implications should the UK decide to exit the EU. The official decision is currently still pending as the EU has given the UK until October 31st, 2019 to come to a final agreement; however, many critics and economists have spoken out about the potential for economic collapse in the case of an exit.

Before we dive into the implications of Brexit and how it affects different economies on an international level, it is important to understand the origins of the EU. The history of the EU begins in the early-mid 1900s, with the first embodiment of the EU titled The European Communities (EC). The UK officially joined the EC in 1973 after first being denied accession by the French president Charles de Gaulle twice in 1963 and 1967. The first Brexit referendum occurred in 1975, where 67.2% voted in favor of staying. European Communities officially became the EU in 1993 under the Maastricht Treaty. Currently, the EU is made up of a group of twenty-eight European countries. The countries are held together by alliances in both politics and economics (Watters). The EU helps support political, social, and economic rights for the allied countries.

Some of the most notable and distinguishable benefits of the single market EU system over the last several decades include the promotion of free movement of workers between countries. Citizens of the EU are allowed to work and live in any country apart of the EU. Free movement allows trading among EU countries to remain free and the policies are designed to help reduce cost and allow for more available markets. Keeping the cost low and increasing competitiveness amongst the countries tends to keep illegal goods from being imported. Additionally, there are consumer and human rights benefits as the EU has high consumer protection standards. Environmental and food standards of the EU also benefit the UK., helping to prevent unscrupulous businesses from selling contaminated food or polluting the atmosphere. Perhaps most importantly, the EU has strong global power as the European countries are tied together to form one large voice to promote peace and prosperity in the region.

One additional and distinguishable benefit the EU shares without the UK is its shared form of currency, the euro. Euro currency originated in the European Monetary System (EMS) in 1979. It was implemented with the goal to create a more stable European economy. Historically, it improved economic growth and offered better integration among financial markets in Europe. As a reserve currency, the euro strengthened Europe’s presence in the overall global economy. While the euro has improved the EU economy overall, there are some issues that should be defined. Despite improving stability, since all nations have to have a relatively similar interest rate, this has caused problems for some countries including Germany. Interest rate adjustments are used as a tool of fiscal policy to control the money supply, inflation rates, and economic growth. So in this case, if the local economy of a European country slows, the local government is not able to lower its own interest rates in order to stimulate growth. The UK chose not to adopt the euro and uses its own Pound Sterling. “Black Wednesday”

While the adoption of the euro was an important moment for the EU, the UK has chosen not to

adopt the euro as its currency. The primary reason for this is because government has not wanted to abdicate control of its interest rate policy, which is a fair reason given lack of government oversight in domestic interest rates is one of the major pitfalls of the euro. According to Blair's Chancellor of the Exchequer, Gordon Brown, the euro also did not pass the five test policy. The tests involve Eurozone interest rates and UK compatibility of business cycles and economic structures, along with sufficient flexibility to deal with both local and aggregate economic problems. Furthermore, for the UK to adopt the euro, it "must create conditions conducive to firms and individuals investing in the United Kingdom." The UK would also require that the euro "enable the nation's financial services industry to remain competitive internationally." Finally, the test requires that the euro promote long-run economic growth, stability, and job growth. Naturally, some people believe the standards of the test were too difficult insomuch that the euro had no chance against the pound sterling. Nonetheless, to date, the UK maintains use and control of its own currency; however, despite this, there remain great currency implications for an EU exit.

In the decades following the UK's accession into the EU, anti-EU sentiments have grown. In order to understand what leads up to Brexit sentiments today, we must understand Prime Minister Margaret Thatcher's legacy. In 1979, Thatcher was elected Prime Minister, where she remained until 1990. She was a powerful member of Conservative Party and was most known for her opposition of the EU. She outwardly backed the UK leaving the European Union through most of her political career. Author Christopher Hope of The Telegraph states that the prime minister felt as if the "UK would be better off outside the EU..." She was known as a monetarist much like economists such as Milton Friedman and Friedrich Hayek. She promoted policies that supported low inflation, small government regulation, and free markets through tight control of the money supply, as well as privatization and constraints on the UK labor movement. To admirers, Thatcher saved Britain after decades of decline following World War II by taming trade unions, rolling back the state, creating a vigorous enterprise economy, and ultimately bringing freedom and liberty back to Eastern Europe following the war. However, to her critics, Thatcher was narrow-minded, vindictive, and overly provincial as an ideologue. Critics felt her policies were devoid of compassion for the poor given that she increased inequality and failed to invest in the long-term future of the UK.

It is easily arguable that most of the challenges the UK faces today can be traced back to many of Thatcher's policies. Some of the current issues facing the UK include a housing shortage and a National Health Services crisis due to underfunding and low taxation. Tax cuts made by her most powerful chancellor Nigel Lawson subsequently fueled a credit boom and an addiction to consumer spending, which has put households in major debt. Privatization of major utilities and the criminal justice system damaged the expertise and professionalism of these services. Rate-capping has restricted council spending and abolished the Greater London Council. Overall, Thatcher relentlessly stripped power and autonomy from local government, leaving it overburdened and underfunded. Thus, she is considered by many to be the key reason for the destruction of civic solidarity and political unrest in the UK, leading Eurosceptic parties to emerge in the early 1990s.

Those in Eurosceptic parties such as the Conservative Party who are in favor of Brexit feel that if Britain were to leave the EU, economy would experience immediate cost savings since they would no longer be making contributions to the EU's budget. This cost savings would be used to help fix the issues described above. This new freedom for Britain if they left the EU also gave Brexit supporters a secure feeling that Britain would be able to re-establish itself as an

independent nation while still having connections all over the globe. To supporters, an exit is a must because it gives them the voice so many have desired for over 50 years. They will be able to set their own tariffs and make decisions for themselves, meaning the separation would help with national sovereignty. To supporters, Brexit is not simply an exit from the Union, but is the fight for national sovereignty; it is closely tied to the growing nationalist sentiments in the UK as the country seeks to identify itself.

The UK Treasury is among those not in favor of the separation, one of the reasons they argue is that the EU has a strong effect on trade. Surprisingly, both supporters of Brexit and a no-deal Brexit agree that the EU membership would mean they would be forced to relinquish some control over their domestic affairs (The Week). This is seen as a big step backward for their economy as they will be giving up their global influence. They would rather remain unchanged and keep everything the same including trade and the borders. Either way, with a withdrawal from the EU, the outcome will affect the UK and other countries. The question remains - will it be good or bad for the countries involved?

Generally, the consequences of a Brexit could include (needs further elaboration beyond financial/banking implications described)?…. A report from the independent research institute New Financial identified a total of 269 companies in the banking or financial sector that had relocated portions of their business or staff following the Brexit referendum. London’s financial state is in question because London has benefited from being on the bloc; it has helped them find their place in the financial market. “Pro-Europeans argued that the UK's status as one of the world’s biggest financial centres would be diminished if the City of London was no longer seen as a gateway to the EU for the likes of U.S. banks” (The Week).

Not only will Brexit impact the EU, it may also impact the United States (US). The Fed has explicitly mentioned Brexit’s uncertainty as one potential factor weighing on the US outlook, and it is certainly possible that a Brexit could cause a period of volatility in global financial markets which, if it was sustained, might weigh on US growth (Hunter). Other pro-Brexit campaigners want the UK to forge trade deals with countries outside the bloc but it cannot negotiate these while still inside the EU (BBC). The United States is currently the UK's largest single-country trading partner and will certainly feel the impact of a Brexit deal. The United Kingdom will want a closer relationship with the US because of the loss of ties with the EU, and this could potentially be an economic boost for both countries. The effect Brexit will have on the US depends on what form the departure takes and how close the UK stays to the EU. As it stands right now, President Trump has attempted to negotiate a post-Brexit trade deal, “but not everyone is convinced that the UK's cherished 'special relationship' with the US will translate into such a mutually beneficial trade deal” (Ellyatt). According to senior economist Andrew Hunter, the US does not really have much to gain or lose with a disorderly Brexit. In the event that a no-deal Brexit was to take place, the US will feel an increased amount of unpleasant rapid change and unpredictability which would have an impact on US growth. In fact, In June of 2019 when the original Brexit vote took place, the Dow Jones industrial average experienced a decrease between 5% and 6%; “many US economists thought Brexit could shave as much as 0.5 percentage points from the country’s GDP growth” (Ellyatt). This is true for a number of other countries as well and they are trying to mitigate the risks this poses for their economies, consumers, and financial service providers.

Irish borders are part of the discussions as well, and because of this, farmers and small business owners are hoping for a deal rather than a no-deal exit. The EU could potentially ban

farmers and dairy producers from one side of the border. This is something that could ultimately put them out of business. Another concern for the Irish borders stems from the changes that will take place if Brexit were to happen. Changes that affect trade and immigration checks would be harmful to the Irish economy as they rely on the freedom of importing and exporting as well as immigrant workers. A “hard Brexit” would impose “hard borders” which means that transporting goods becomes more difficult.

Given that there are various Brexit models from which the UK could choose from, the implications of each will be varied. More recently, previous Prime Minister David Cameron (2010-2016) held a referendum in 2016, in which 51% of people voted to leave the European Union. “The BBC reports that the final vote [for Brexit] supported the U.Ks leave the EU vote 52% to 48%” (Watters). While 30 million people voted, 17.4 million of those people voted to leave. Among those who were in favor of exit include Conservative Party, as well as other political figures including Boris Johnson and Theresa May. Thus, following David Cameron’s 2016 referendum, Britain gave itself a transition period of two years to officially leave. Originally, Britain was set to exit the EU in March 2019, and Theresa May set the exit in motion prior to her resignation as Prime Minister. However, this date has since been extended to October 31, 2019, as political leaders in the UK and EU collaborate to reach a deal.

In the event of the complete failure to come to an agreement in time, this would lead Britain to a “no deal,” in which there would be no transition period. The United Kingdom would have to abide by standard international trading rules, and tariffs and border checks would kick in. laws would officially be separated from the EU. In the event of a “no deal,” economists fear Britain could face a crash, total economic chaos, and possibly food shortages. And, since one of the most important elements of the Union is that it removes all border controls allowing the free flow of citizens, goods, and money to cross borders without the need of a passport, with no Union such free-flowing movement would cease. According to a report from The Guardian, a “no deal” Brexit plan revealed that the EU will require more paperwork and additional documents for exporters and deliveries. Planes will still be able to fly, but trains and buses will need proper identification and/or specific certificates to cross borders. Newcomers will be allowed temporary residence or employment. Employers will be encouraged to hire locals versus nonlocals. Some argue a “no deal” may also ignite sectarian violence in Ireland due to the potential for a border wall between the UK and Ireland since Ireland would remain part of the EU, as well as the potential for new border checks at the UK borders. Furthermore, as EU members, Britain is part of a single market system, customs union, and the courts of justice which would all be lost to the UK upon exit. The harder the Brexit, the more Britain had to lose.

Another alternative agreement would be a “hard Brexit,” which is something several conservative members of Parliament want. A hard Brexit would mean a definitive split from the EU, and the government would be free to set their own rules and regulations. The UK would be able to make trade deals with other countries, and it could be especially good for businesses that only trade in Britain. A hard Brexit could keep the peace with Ireland though freedom of movement would be halted. Lastly, a hard Brexit would impose restrictions between countries causing them to “carry out trade with Europe and other nations under World Trade Organisation (WRO) rules” (FXCM). Being bound to these rules would cause additional international trade restrictions.

The third option is a “soft Brexit.” This is the option that most economists believe to be the safest and least damaging option. A soft Brexit would mean fewer changes and more alignment

between the UK and the EU. A really soft Brexit would mean that Britain could stay in the single market system and customs union; however, this would have the opposite effect for businesses as there would be no tariffs for importing businesses. A soft Brexit would also make the UK miss out on making trade deals on its own, and there would be minimal free movement changes. In general, this option minimized the number of implications that are placed on international trade. Sebastian Raedler of Deutsche Bank states, “We expect UK domestic stocks to outperform UK exporters by 20% if a soft Brexit materializes.” While this may sound like the best option for all parties, a soft Brexit could still lead to some political turmoil as it changes the perception of Britain’s own national democracy, causing voters who desired to leave the European Union to be left feeling as though their voice was betrayed. Are there any other implications for a soft Brexit?

Needs much more elaboration… A fourth and final agreement option for the UK is a “Chequers Deal,” which supports staying in the EU single market.

Whatever agreement the UK and the EU come to, each will have consequences all over the world as the UK and other countries try to recover and adjust from the changes. Only more time will tell as the UK is closely approaching the final decision date scheduled for October 31st, 2019. In the meantime, we can hope that the UK will make its decision strategically in order to lessen the potential for a crash that would reverberate across the globe.

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