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The effects of Brexit
on the EU, the UK
and Dorset –
a migrant's account

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THE EFFECTS OF BREXIT ON THE EU, THE UK AND DORSET – A MIGRANTS' ACCOUNT

Jens Hölscher*

Abstract

The lecture evaluates the economic effects of Brexit on the EU taking Frankfurt as an example, the UK and in particular Dorset. Dorset stands out as having voted pro leave well above UK average. The lecture argues that Brexit is against the interest of Dorset businesses except for the tourism sector. The overall effect on the UK is presented as negative for the economy, whereas there will be a small positive effect on the EU. Much will however depend on whether there will be a hard Brexit or transitional arrangements can be established.

Keywords: Brexit, European Integration, Migration

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Introduction

Professor Richard Condor

Chair of Bournemouth University Board

Good evening and welcome to this latest in our series of Fusion inaugural public lectures that BU is excited to be presenting.

Thank you to Danny Jones and his team at Barclays for allowing us to use their headquarters in Poole to host the event and what a magnificent view there is of the bay.

Jens Hölscher is an elected Academic Staff Member on the Bournemouth University Board. Before coming to Bournemouth in 2013, he was at the Universities of Berlin, Swansea, Birmingham, Chemnitz and Brighton.

He held Visiting Professorships at the Universities of Halle (Institute of Economic Research IWH), Perugia, East Europe Institute Regensburg, Danube University, Bonn (ZEI), Bolzano-Bozen, Frankfurt (Viadrina), New Brunswick in Cairo, Almaty (KIMEP and KBTU) and the Centre of Economic Research at the Deutsche Bundesbank.

Jens' personal interests include being owned by a miniature Dachshund by the name of Leo that allows Jens to take him for walks on a regular basis.

Academically Jens is interested in institutional and transition economics, both areas in which he has published widely. He is the co-editor of Palgrave's (Macmillan's Global Publishing) book series 'Studies in Economic Transition', which presents 55 book titles. His most recent funded project was sponsored by the Open Society Foundation and was entitled 'Wealth, Poverty and Life Satisfaction in Transition Societies' and another one was entitled 'Variety of institutional settings and socio-economic inequalities in the process of European integration' was funded by the EU's Jean Monnet Programme. And was recently awarded a prestigious project by the ESRC on 'Access to Finance for SMEs' – a very important topic given the current position of the UK economy and with Brexit looming.

This leads us nicely to the title of Jen's topic this evening

“The effects of Brexit on the EU, the UK and Dorset – a migrant's account.”

There will be opportunities to ask Jens some questions about his topic once he has finished this evenings inaugural lecture – so without further ado can we welcome Jens Hölscher to deliver his talk?

Ladies and Gentlemen, Colleagues and Friends, Karin and Karl

I also wish to thank Professor Richard Condor, who chairs Bournemouth University board and acts as my mentor as the newly elected Academic Member of the board for his flattering introduction.

Welcome to my Inaugural Lecture!

I am grateful to Barclays for hosting this event at their spectacular venue overlooking the second biggest natural harbour in the world after Sidney. Having this lecture in a bank somehow brings me back to my roots, as I started my professional career as a bank apprentice. After completing the apprenticeship, I wanted to know more and went on to study economics at the Free University Berlin.

I start the event by cutting the European Union's flag as the opening gesture, although that is not going to happen in reality, as it has a symbolic description of the following terms: 'Against the blue sky of the Western world, the stars represent the peoples of Europe in a circle, a symbol of unity. Their number shall be invariably set at twelve, the symbol of completeness and perfection (Council of Europe, Paris 1955).



As part of the introduction let's start with the subtitle of the lecture, namely 'a migrant's account': You might have guessed who the migrant is and you are right, it is me. I am the migrant. Also, the umlaut in my name and my accent might have given you an idea of my origin and yes, indeed, I am 'made in Germany'. Hopefully I am as reliable as a Volkswagen. However, being a German migrant has some implications:

First, there will be no humour in my talk, as Germans, as it is widely known, have no humour.

Secondly, being the topic of my lecture allows me to talk about my favourite subject, namely about myself.

Thirdly, I am economist and will try to concentrate on the economic effects of Brexit, rather than the perhaps more important political aspects¹.

Just to give you some background of me: My first migration happened in the early 1990s, when I migrated from Hanover² to what was then West Berlin. West Berlin at the time was not part of Germany, but it was territory of the Allied Forces of Britain, France and the United S. I moved into the American Sector and then later to Kreuzberg in the British sector. West Berlin was an interesting place to be attracting not just me, but for example David Bowie, Sid Vicious and Nick Cave. And of course, I met my wife Karin there. With German unification Berlin became a more normal city and many cool people left. Karin and I moved with our son Karl to the UK actually to Swansea in Wales.

Economics is an old academic discipline and could be traced back to Aristotle and other ancient Greek scholars. To start with the economic effects of Brexit it seems appropriate to me to refer to Karl Marx, as the arrival of modern economics is normally dated with Adam Smith's 'Wealth of Nations' in 1776 and Marx was certainly one of his most studious disciples of Smith. His 'Das Kapital' is the ever-best-selling book in economics and this year the 150th year of its publication is celebrated in some places. The implication of his work that capitalism will fail because of its internal contradictions has not come into effect yet, but maybe it will come true in another 150 years. Who knows?



¹ Let's hope history is not repeating itself: When Mrs. May published between her coughs her belief into the market economy and against establishing trade barriers I felt reminded to Walter Ulbricht's infamous statement that 'nobody has the intention to build a wall' in 1961 just before exactly this was done.

² I can't help mentioning that the Hanoverians have been ruling Britannia for centuries. The House of Windsor was invented in light of the First World War, but the blood lines are still the ones of the House of Saxe-Coburg.

The photos show a monument in his memory at the central square for what was called Karl-Marx-Stadt during GDR times³, which was renamed to Chemnitz in 1990. I once had a Visiting Professorship sponsored by the Commerzbank there. The other photo references him as yet another migrant to Great Britain, as this is his grave stone at London Highgate cemetery, where his remains lie next to his wife Jenny, the Baroness of Westphalia. If you wish to go on a pilgrimage, I would recommend you go there, a very nice place to be even without Karl Marx's grave. I picked the quote, 'The philosophers have only *interpreted* the world, in various ways. The point, however, is to *change* it.' as I think it documents the spirit of the Brexit 'leave' campaigners, who really wanted to bring about change to the real world⁴. The 'remain' campaigners seem to have taken the more philosophical approach.

I would like to identify three big background themes behind Brexit. First of all, there is what Marx's teacher Friedrich Hegel conceptualised as *Zeitgeist*, i. e. the spirit of the time, as opposed to *Weltgeist* as an approximation of perpetual truth. The current *Zeitgeist* is anti-liberal as evidenced by Trump's 'America first', UKIP, Alternative für Deutschland, Front National and recently Österreichische Volkspartei. We do not know, how long this *Zeitgeist* will last, but it puts national interest as priority over international openness. From an economic perspective openness for trade and migration are essential conditions for welfare creation. Economic theory assumes that participation in free trade is to the benefit of all participating parties, albeit perhaps not to the same extent. For example, it has been argued that Germany non-asymmetrically benefits from its export surplus.

Secondly, I would see the *Zeitgeist* as anti-social. One example would be the French president, who openly disrespects the unemployed. The spirit of the time sees inequality, which is on the rise throughout the world, as motivation to work more and harder. The world income inequality between and within countries has not been higher than it is now, as long as we can follow written records.

The third theme I would like to identify is that Brexit inherently is anti-business, which I feel contradicts *Zeitgeist* and comes as a surprise for what Bonaparte referred to a 'nation of

³ The Saxons call the bust *Nüschel*, a word that does not exist in my West German vocabulary. It means head, skull or cranium.

⁴ Those who understand German should be reminded that the original reads "Die Philosophen haben die Welt nur verschieden *interpretirt*, es **kömm**t drauf an sie zu *verändern*" (Thesen über Feuerbach 1845), where the umlaut marks his Westphalian upbringing.

shopkeepers'. It is this aspect I will concentrate and elaborate on, as it still puzzles me and raises not only eyebrows but I have some serious questions.

Before we enter the economic analysis, I would like to make it clear that I do know where I am in the context of Brexit. I expressed some critical views on Brexit economic effects on Dorset in the Bournemouth Echo and received some interesting comments such as 'those, who can't make it in the real world teach' or 'time to ignore these self-proclaimed experts', which are exemplars for the tone of the reaction. There were 59 comments on the warning of job losses article. This makes me think, whether Brexit also has an anti-educational theme as background.

So, I suggest having a look at the facts of the vote. Dorset stands out, as here we find a far higher 'leave' vote than in the rest of the country, with the highest majorities in Weymouth and Portland, where 61% opted to vote for 'leave', which represents a majority of 22%. Other areas including the boroughs of Bournemouth and Poole came close. Only West Dorset comes somewhere near the national average of 52% for 'leave' versus 48% for 'remain' due to its liberal tradition. So, I am very aware of the hostile environment I am manoeuvring in⁵.

A look at the demographic composition of the voters shows that mainly the elderly, who are over 50 years old (like me) and even more so over 65 years voted for 'leave'. Young people overwhelmingly voted for 'remain'. Reasons might be that the younger generation has no memory of how it was like being outside the EU, whereas the elderly including myself do remember those days of history until 1972. And those memories might be good ones. I do not recall any issues passing the German-Denmark border for summer holidays. My father would have the allowed amount of beer bottles in the boot, as like today alcohol was prohibitively expensive in Denmark. Key problem as I see it is to disentangle the economics from the politics of Brexit.

A further look at the data reveals that it is not just the elderly but by and large the less well educated population, who voted for 'leave'. A proxy here can be Sun readers versus Guardian readers and of course there is hard evidence of discrepancy between graduates and those who hold a GCSE or below as their highest qualification. It is also clear that Brexit is a very English affair, whereas the Scots and Northern Irish voted in favour of 'remain'.

After having retrieved some background information I wish to turn to the actual process of Brexit. The EU led by Germany and France have made it clear that they regard the

⁵ I once taught in the presidential office in Almaty after the president had moved to their new capital Astana. That office had a secret lift leading to the cellars from where secrete gateways led to the world outside of the city. I do not think Barclays here has that, but I have a good driver.

settlement of the so-called 'divorce bill' as precondition for any further negotiations. And this is the point, where the process is currently stuck. Mrs. May's attempt to convince Mrs. Merkel going further without the settlement were clearly unsuccessful. Those settlements would include outstanding budget commitments, EU official's pensions, contingent liabilities and other costs of the UK withdrawal. Numbers range between 20 and 100 billion Euros.

If no agreement can be found we will be confronted with a 'hard Brexit', which I illustrate with a picture and quote from Shakespeare's 'Merchant of Venice' from 1600. Monsieur Barnier might take up the role of Shylock and demand from Mr. Hammond as Antonio

*'Go with me to a notary, seal me there
Your single bond; and, in a merry sport,
If you repay me not on such a day,
In such a place, such sum or sums as are
Express'd in the condition, let the forfeit
Be nominated for an equal pound
Of your fair flesh, to be cut off and taken
In what part of your body pleaseth me.'*⁶



It seems clear that businesses are in fear of such an outcome, as it would create huge uncertainty.

From a business perspective, transitional arrangements for example of two years would be favourable. These would cover migration, commodities and services, for the UK in particular financial services. Also, investment in infrastructure currently hugely supported by the EU would be subject of transitional arrangements. A good example is the UK – Irish border, where currently Ireland's horseracing business relies on longstanding agreements that allow the tariff-free and unfettered movement of thousands of horses between the UK and Ireland. I do not see that anybody questions the Good Friday Agreement. But then the question arises, whether the UK – Ireland relations can be different to the let's say the UK – France

⁶ I feel sorry for what my pronunciation does to the language of Shakespeare.

relations. The Dover – Calais passage is the obvious bottle neck. “From the 500 or so [lorries going to non-EU countries] that we process now, we could suddenly be doing up to 10,000 a day,” says Mr Dixon, a stocky 51-year-old UK border force official who has lived in Dover all his life. “I don’t know how we — or Dover itself — could cope with an increase on that scale.” Of course, the same would apply on the other side of La Manche in Calais.

The main issue for the Dorset economy is like for the UK and EU the degree of uncertainty. For the EU uncertainty has a positive prefix, as I would like to illustrate with the case of Frankfurt. The assumption here is that if in the next four years 10,000 new bank jobs are created this would indirectly generate indirectly between 21,300 (careful prognosis) and 34,100 jobs (optimistic prognosis) in Frankfurt indirectly. For the Rhine-Main area these figures would be 35,900 to 87,700, a massive effect of Brexit. Benefitting sectors in Frankfurt would be in manufacturing, in particular automobile production and health, which would be complemented by growth in traffic and logistics, property production and other services.

In sharp contrast the picture for Dorset looks very different: For example, the Dorset Growth Hub which is supporting start-ups of Small and Medium Size companies (SMEs) is heavily relying on support from the European Union, which is even part of their logo.



JP Morgan has announced that they might lay off about 4,000 jobs in the UK. With 4,000 employees in the area they are the biggest employer in Dorset.

A positive effect could however occur in the area of tourism, because the drop of the value of the Pound might attract more visitors from the EU as well as giving an incentive for UK residents to stay for their holidays within the country. There is already evidence that this is happening. Dorset hotels have increased prizes and can’t find enough staff with the consequence that some of them have to close their cuisine, because they cannot find a second chef. On a personal note: I am about to go to Italy shortly. This is of course a matter of the price elasticity and willingness to pay.

As other UK regions Dorset will suffer

- a) from exclusion from EU agencies, programmes, and markets
- b) poorer access to intelligence/information
- c) effects on Direct investment – domestics and inward
- d) access to skills and existing skills
- e) divergence of standards/regulations
- f) impacts on trade competitiveness – exchange rate and structural factors

The main issue however is the creation of uncertainty raising the following questions:

How will **Airbus** change its decision making and effect the local aerospace supply chain?

Will **Lush** develop its new continental facilities more than local?

Last year Poole engineering company **Alfatronix** shelved plans of building a factory because of BREXIT.

NHS: More nurses and doctors from the EU leaving their jobs in Dorset than ever before.

Alternatively, some local companies remain very optimistic because they either only trade domestically or they trade more outside EU than in it.

Looking at my own employment sector, we can see that 24,860 members of staff from other EU countries work for UK universities, making up 23% in total. Now 1,393 EU staff was leaving last year. For the department of Accounting, Finance & Economics at Bournemouth University, which I attempt to manage we have at the moment: 9 EU staff members making up 32% of the employees, two job offers rejected to EU (in this case German) citizens and no recent application from outside UK EU citizens for recent job vacancies.

From colleagues in Germany I hear the opposite movement getting flooded by applications from German academics currently working for UK universities. This does not include me.

Brexit 'remain' campaigners are under some sort of attack labelled as being anti-democratic. They are pointed at the BBC, the civil service, the City of London, leading universities, top lawyers as well my favourite publications, The Economist and Financial Times. For this reason, I wish to conclude with a quote by yet another migrant to the UK, Karl Popper⁷, who

⁷ For Popper, the ideas of Karl Marx were the biggest threat to societies.

in his path breaking work (1945) 'The Open Society and its Enemies' said "We must plan for freedom, and not only for security, if for no other reason than only freedom can make security more secure."

