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An Analysis of Brexit's Consequences
on the United Kingdom's Economy

A Capstone Project Submitted in Partial Fulfillment of the
Requirements of the Renée Crown University Honors Program at
Syracuse University

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and Renée Crown University Honors
Spring 2017

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Abstract

Following the Brexit referendum decision made on June 23, 2016, much uncertainty surrounds the United Kingdom (UK) leaving the European Union (EU), particularly how that decision will impact its future economy. Due to high levels of globalization, genuine concern exists for the UK's decision producing a global economic crash, similar to the financial crisis of 2008. Ultimately, the result of Brexit will depend largely on the policy created and implemented once the UK officially leaves the EU. If the UK is able to successfully navigate exiting the EU with little economic consequences, it is conceivable that other EU members could follow suit and want to leave the EU as well, which could cripple the integrity of the EU and the dynamics of Europe. Based on qualitative data analysis, this paper concludes that the UK leaving the EU will have minimal effects on the world economy, yet the ripple effect the Brexit referendum could initiate might have catastrophic effects on the European and world economies.

Executive Summary

This report's objective is to provide an analysis of the current and prospective economic impacts resulting from the United Kingdom's exit from the European Union and to evaluate the scope at which the effects will spread, from within the UK to worldwide. Despite its small geographic size, Great Britain holds significant power in the European and world economies. In 1971, the UK aimed to expand this power through globalization, by joining other European nations in the European Economic Commission, which later became the European Union. Since unification, the UK has experienced both economic success and failure, prompting individuals to question the effect extreme globalization has had on the nation.

Although participating in the EU has had its advantages, the UK voted to leave the European Union on June 23, 2016, with its official EU departure date set for March 29, 2019. This report includes qualitative data analysis of the history of the EU and the reasoning behind extreme globalization in the form of unions, as well as an evaluation of both sides of the Brexit debate. This evaluation contains a detailed description of reasoning for and against Brexit, incorporating the topics of sovereignty (e.g., immigration, law, and crime), finances (e.g., trade and jobs), and international influence—or, more specifically, defense in the UK.

This report examines numerous economic theories relating to the EU and to the UK's exit from the EU, including the free-trade model, which describes trading internationally without imposing any restrictions, such as tariffs or quotas. This model is useful in visually depicting the impacts of tariffs and quotas, as well as showing the possible benefits that high levels of globalization, such as found within the EU, have on the domestic economy of a country. Applying a compilation of various economic theories to the analysis of Brexit's impact on the British economy leads to a confident prediction about the future of the UK.

The qualitative data analysis shows that the effect of just the UK leaving the EU will be minimal on the world economy, yet the ripple effect the Brexit referendum could initiate might have catastrophic effects to the European and world economies. If the UK is able to exit the EU with minimal consequences, it is likely that other EU members will want to leave the EU, which would create a significant impact on the integrity of the EU and the dynamics of Europe.

Due to the ongoing nature of this report and the fact that Brexit has not yet taken effect at the time of this project, the analysis has limitations. It is difficult to know with absolute certainty how the UK leaving the E.U, set on March 29, 2019, will affect the UK, as well as the world economy. All conclusions reached from this analysis are based on economic theory and an analysis of the data up to April 2017. Thus, given the vast amount of uncertainty and that no historical precedent exists, room for error must be allowed. The impact Brexit has on the economy could differ greatly depending on the reaction from other nations following March 29, 2019 and the economic relationship the UK and other EU countries develop in the near future.

Evaluating the impact of Brexit is vital because an action of this extent has the ability to spread financial consequences to economies throughout the world. Although it is impossible to know for sure what the outcome will be following the UK's departure from the EU, some predictions can be made to help educate and prepare both policymakers and the general public. Thoroughly examining each side of the argument, as well as analyzing economic theory related to Brexit, could help minimize the effects of this transition while the UK begins creating new policy as an independent economy. This information will be useful for other members of the EU considering an exit from the Union as well, before they hold similar referendums and jeopardize intensifying the impact of Brexit.

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Chapter 1

Introduction

The legacy of the powerful British Empire, which once ruled approximately one quarter of the world's population, still influences the present-day United Kingdom, an independent, sovereign state that includes England, Wales, Scotland, and Northern Ireland. Despite the small area of land that the United Kingdom encompasses, the nation holds significant power in Europe and on the world's economy. In 1973, the United Kingdom tried to further its power through globalization, by combining with other European nations in the European Economic Commission, which later formed the European Union ("The History"). Since the time of unification, the United Kingdom has experienced both economic successes and failures, prompting its citizens to question the positive effect extreme globalization has had on the nation. Although participating in an economic union of nations has its advantages, the UK voted to leave the European Union on June 23, 2016, in a referendum decision, coined Brexit—short for "British Exit." The UK ending its membership in the EU will create significant economic changes for the nation, although it is unlikely that the impact will spread substantial consequences worldwide.

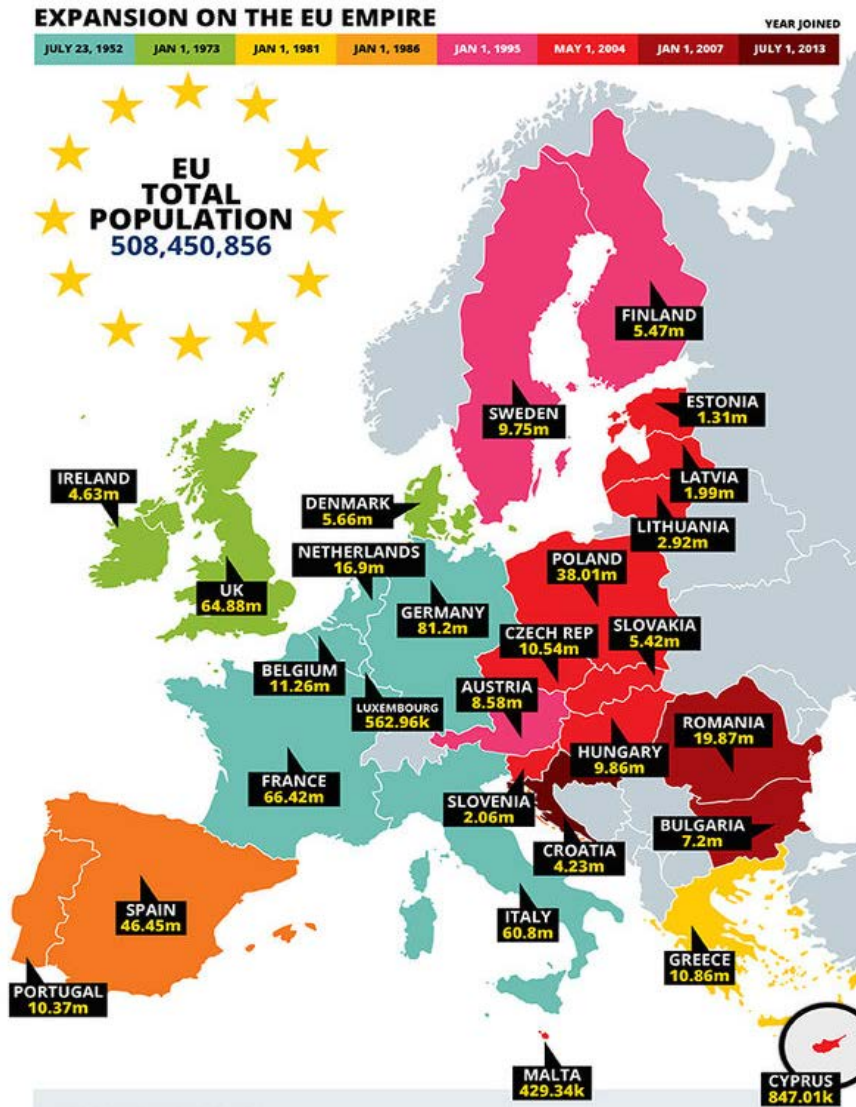
History on the European Union

The purpose of creating the European Union was to form an economic partnership between the European member countries, strengthening the bond between these countries. By establishing a single market that allows for the free movement of capital, services, and goods, all unified nations receive economic benefit. The idea for the European Union arose from the aftermath of World War II, when European countries longed for peace, following the devastation that occurred during the war. Hoping to ensure their countries would never go to war again, six countries signed the Treaty of Paris creating the European Coal and Steel Community and agreed

to share those resources (“The History”). In 1957, the Treaty of Rome created the European Economic Community (EEC), which Great Britain later joined in 1973. With the Maastricht Treaty of 1993, the group adopted the new name of the European Union and created requirements for an Economic and Monetary Union (“Treaty of Maastricht”). Today the EU includes over 500 million European citizens from 28 countries and is considered the world’s largest economy (“EU Position”). Nineteen of those countries share a common euro currency, making up the Eurozone, which began in 1999 (“Eurozone Fast Facts”).

Figure 1: Color-coordinated map of countries’ entry date into the EU, population of each country in millions.

Source: Foster, Alice. “Expansion on the EU Empire.” *Sunday Express*. Web. 23 Dec. 2016.

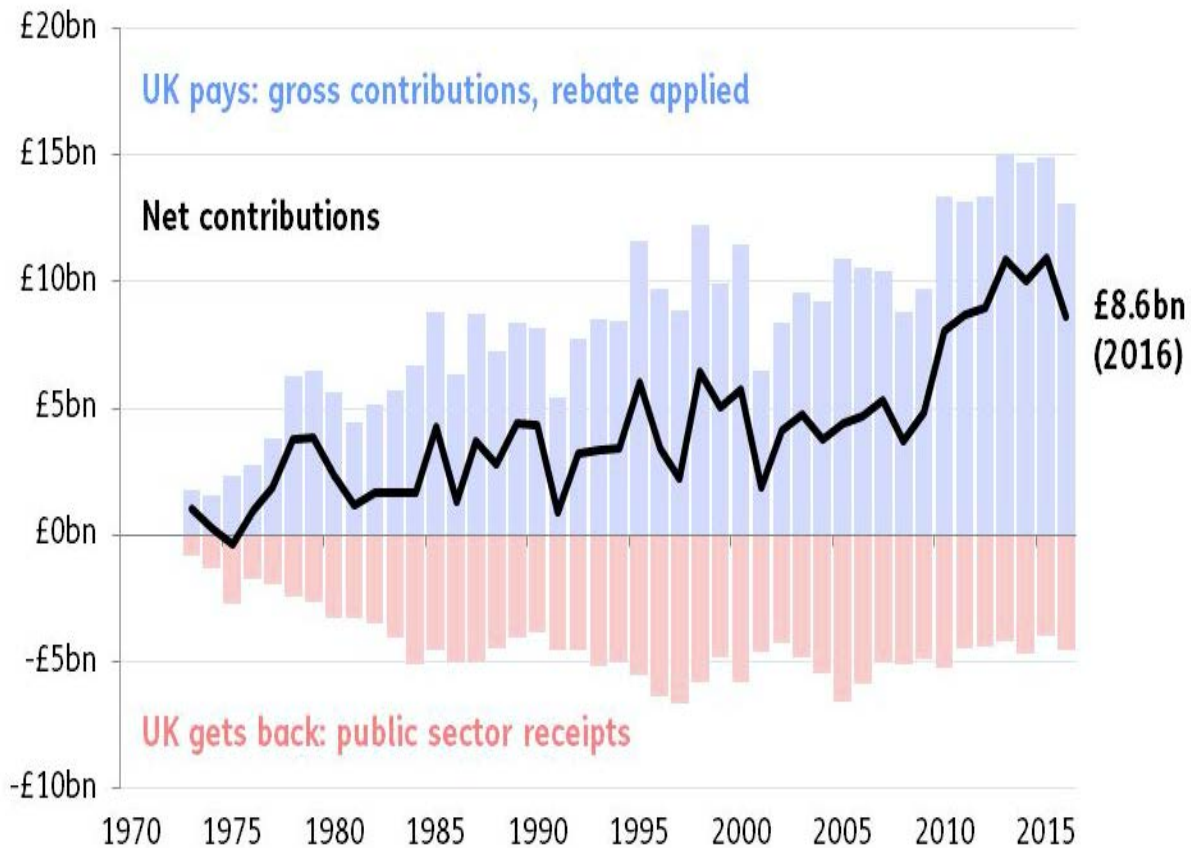


Financial Reasons for and Against Brexit

Successfully running the four institutions of the EU would not be possible without high monetary contributions from each member nation. In 2016, the Treasury estimated the net contribution from the UK to be £8.6 billion. Following these payments, the EU issues rebates based on contribution, as well as refunds for each country, to be put toward projects and development within the country (Full Fact).

Figure 2: Balance of UK monetary contributions to the EU and public sector receipts the UK gets back from the EU budget, adjusted for inflation from 2016 prices, shown in calendar years.

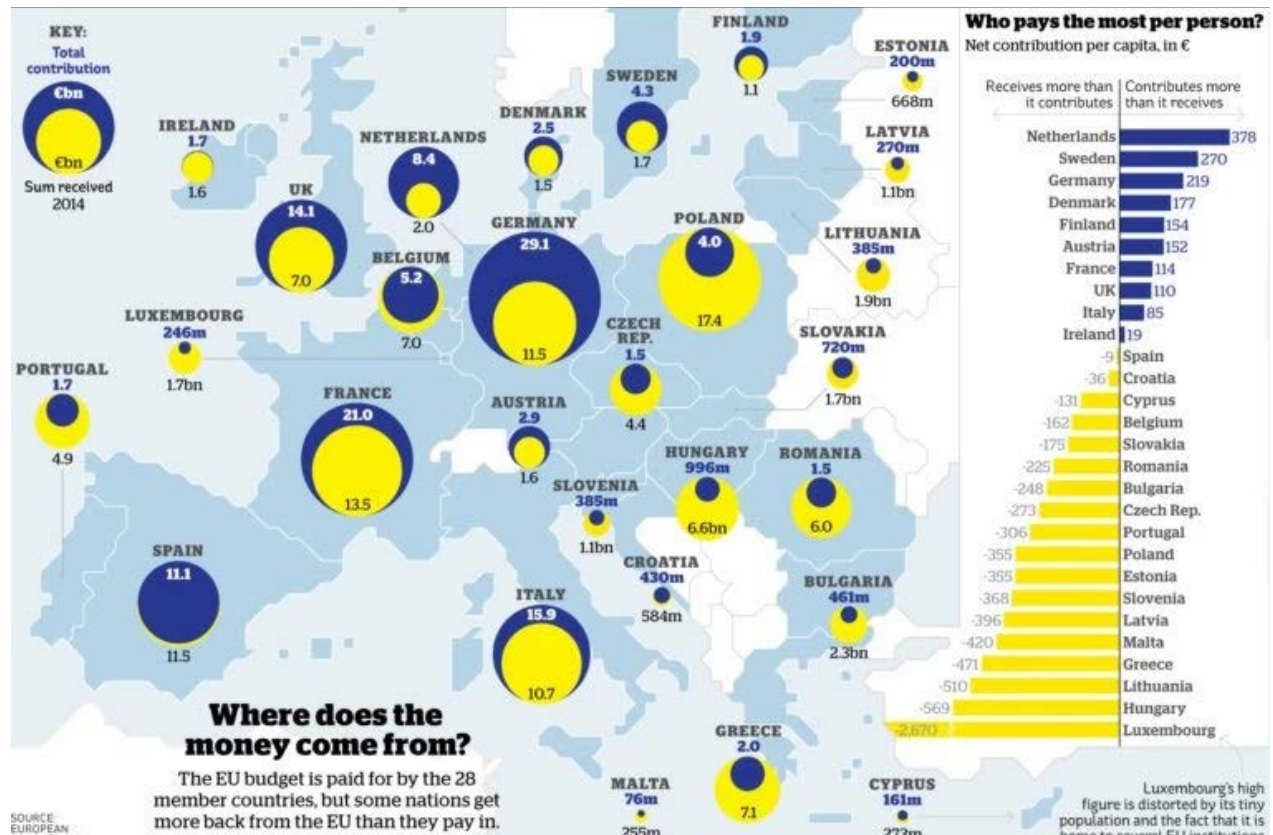
Source: Full Fact Team, comp. "UK Payments to EU Budget." The UK's Independent Fact Checking Charity. Web. 11 Jan. 2017.



Even accounting for the money the UK received back, according to the website *Statista*, the UK's total contribution totaled 12.6% of the EU budget in 2015, making it the third highest contributor after Germany and France ("EU Contributions").

Figure 3: Total contribution of payment to EU by member state in billion euros (shown in blue) and the amount of money that a nation receives back from the EU in billion euros (shown in yellow).

Source: Wyatt, Daisy. "Who Pays the Most Per Person." The Essential Daily Briefing, Web. 5 Jan. 2017.



Because certain countries will always be more powerful and successful than others in a union, the union forces these more powerful countries to contribute more than other countries, who are less established. *Vox* argued that UK citizens felt this significant monetary contribution could be put to better use if it was kept within the UK economy and used, instead, to fulfill its own nation's needs (Lee).

Although Britain's EU membership comes at a high cost, the EU offers its members many benefits. Up until recently, these benefits seemed worth the steep monetary price tag. One of the biggest appeals of being a member of the EU is the trade benefits, since the EU is the UK's largest trading partner. Another financial benefit is that UK citizens have the ability to work in any other EU country and easily travel among all member states. Due to generous trade agreements and the ability to travel cheaply from one member state to another, there is higher

competition among companies across all member nations, increasing the quality of goods and decreasing prices.

The EU Referendum

On June 23, 2016, a referendum decided the United Kingdom's future, where 52% of voters chose to leave the EU and regain the country's sovereignty (Wheeler). Now that the UK has become the first member state opting to leave the EU, many unpredictable consequences will affect both the nation's economy, as well as the global economy. The decision to leave the EU came down to less than 4% of the record-breaking, 30-million people came out to vote on the referendum (Wheeler).

Time (magazine) reported that, in 1975, the ruling Labor government held a similar referendum to determine whether the United Kingdom should leave the European Economic Community, which later became the European Union. At that time, 67% of British voters chose to stay a part of the EEC. In the last four decades, numerous citizens and Members of Parliament have posed the question of whether the United Kingdom should leave the European Union, based on whether the advantages outweigh the disadvantages (Iyengar).

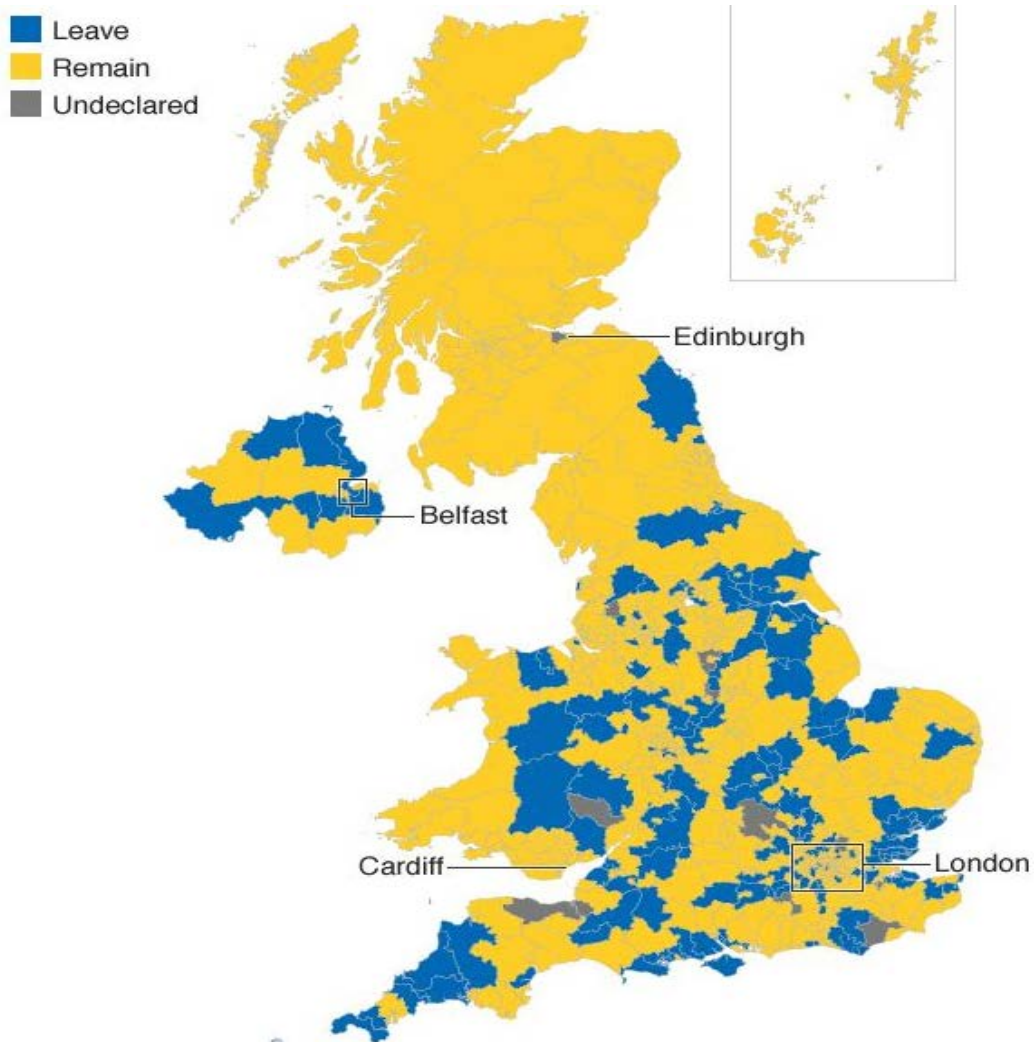
Thus, the possibility of leaving the EU is not a new idea for the UK. In fact, over the years leading up to 2015, the UK has opted out of significant aspects of membership to the European Union, such as using the universal currency, the euro. The question of leaving the EU became more relevant quite recently, however, as the EU reached higher levels of international power and new issues surfaced. Individuals on both sides of the argument had strong reasoning for their decision to either stay or leave, making the idea of a referendum a reality.

During the referendum of 2016, the opinion on remaining in the EU varied greatly, depending on the voter's location within the UK. Although certain areas, such as the East of England, voted heavily in favor of leaving the EU, with nine areas having over 70% of votes in favor of leaving ("EU Referendum"), the outcome of the referendum still shocked many individuals across the world. Because most of these high-percentage areas of leave voters were rural areas, they received far less worldwide media coverage, which created the widespread misconception that the UK's chances of leaving the EU were much lower than in reality. Influential and densely populated areas, such as London, saw citizens strongly in favor of remaining in the EU. When individuals discussed the upcoming referendum in London, the consensus was that leaving the EU was extremely unlikely and many urbanites had little idea how strongly other individuals in rural areas felt on the issue.

As seen in Figure 4, London, Scotland, and Northern Ireland all had the majority of voters choosing to stay in the EU, with cities, such as Edinburgh, having roughly 75% of voters wanting to remain in the EU. Likewise, younger voters also had a much higher percentage of votes to stay in the EU, with 73% of voters, aged 18-24, choosing to remain, while 27 out of the 30 areas with the most elderly citizens voted to leave the EU ("EU Referendum"). Although younger voters were more likely to vote to stay in the EU, the regions with high numbers of young people ended up having the lowest voter turnout, indicating young citizens may not have cast their vote, which could have significantly changed the outcome of the referendum.

Figure 4: Color-coordinated map of Members of Parliament's supporting the Leave or Remain campaigns in the UK, declared by June 22, 2016.

Source: BBC, comp. "MPs Backing the Leave of Remain Campaigns." EU Referendum., Web. 13 Nov. 2016.



Other factors that played a significant role in the outcome of the referendum were education level and national identity. Out of the 30 least-educated regions, based on graduation rates, 28 of these regions voted to leave the EU (“EU Referendum”). Voting regions that had a more diverse population, such as large cities, tended to be in favor of staying a member of the EU, which most likely indicates these citizens’ desire for easy travel and an interconnected global society. Contrast that with the fact that all 30 regions with the most British-identifying individuals voted to leave the EU (“EU Referendum”), attributable to reasons of sovereignty and British pride. Based on these voting statistics and the fact that a higher percentage of voters

choosing to leave the EU were older or more rural with less education, it is evident that these voters focused on issues of nationality and sovereignty, rather than trade and economics.

Immediate Effects of Brexit

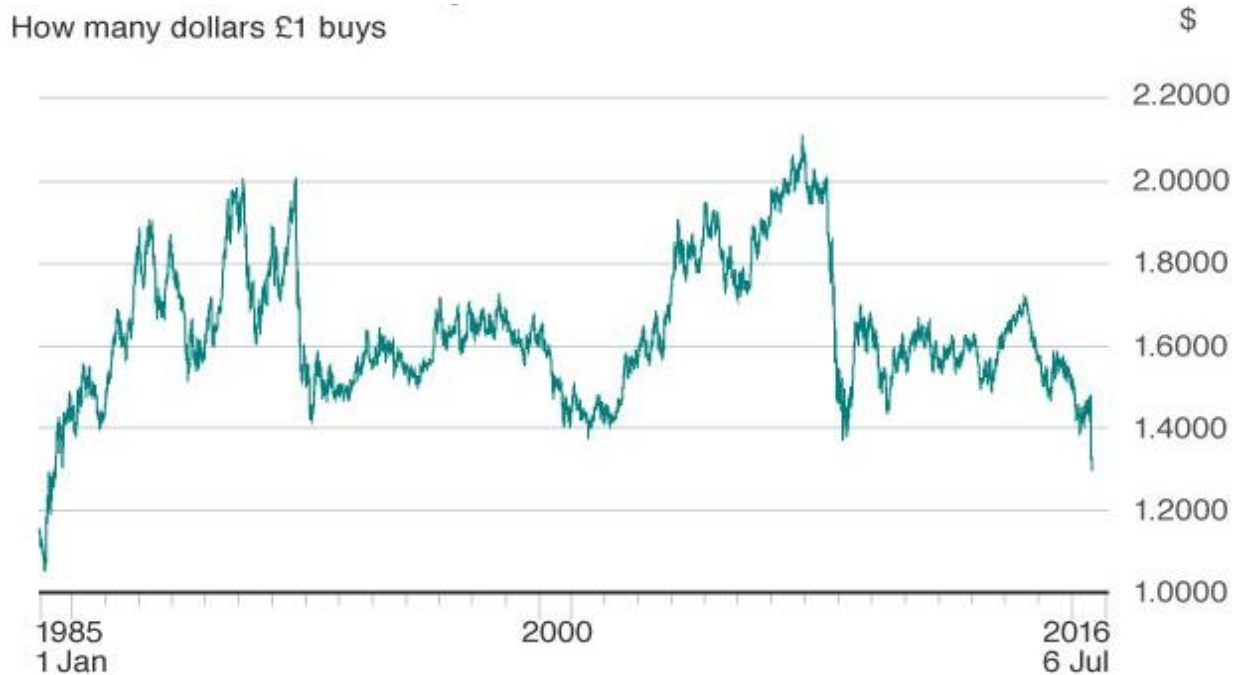
The initial shock of the referendum created some immediate effects to the UK economy. According to the British newspaper, *The Telegraph*, in the weeks following the announcement of Brexit, the UK economy shrunk faster than it has since 2009 (Cunningham). The most significant effect that occurred after the announcement of the referendum results was the decrease in the British pound. Before the full implementation of Brexit (March 2019), spikes in inflation rates have already occurred, leading to changes in prices, investment, and employment.

Exchange Rate:

According to the BBC, the pound dropped to a 31-year low, following the announcement of the UK leaving the EU. The average exchange rate for the pound, compared to the dollar in May 2016, for example, was 1.452, compared to the July 2016 average pound value of 1.314. From the time of the June 2016 referendum decision to March 2017, the exchange rate fluctuated, but overall it was sloping downward, reaching an average of 1.234 for the month of March 2017 (“Pound Hits”). This 15% decrease, from May 2016 to March 2017, indicates that Brexit has significantly influenced the exchange rate in the UK economy.

Figure 5: The number of dollars one euro buys per year, from 1985-2017, with the pound reaching a 31-year low (after the Brexit referendum) since February 1985, when the pound reached \$1.05.

Source: BBC, comp. “Pound Reaches New 31-Year Low.” Shares Slide as Brexit Fears Take Hold. Web. 4 Dec. 2016.



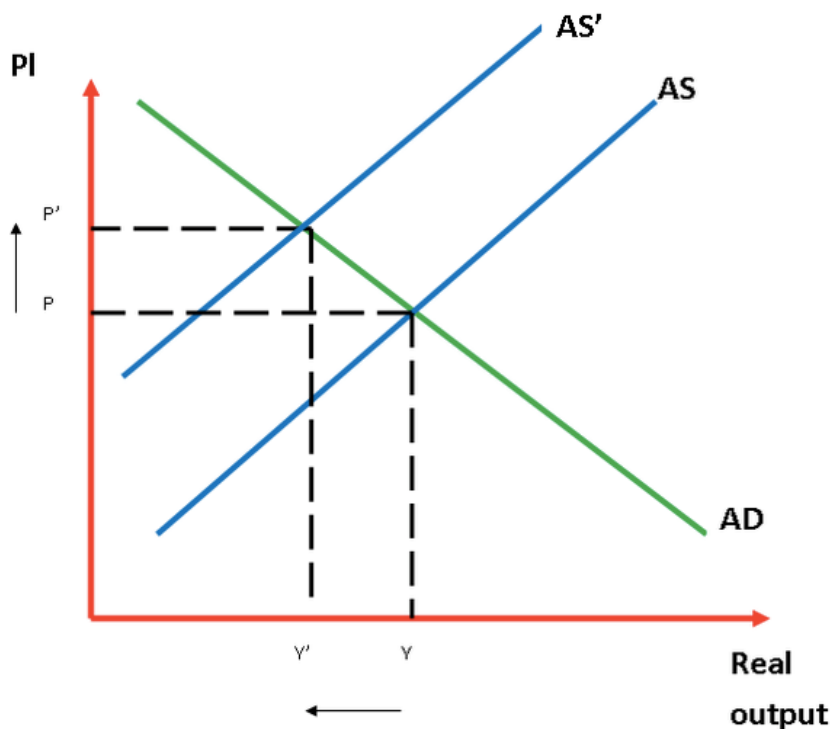
Inflation:

The pound's depreciation will soon start to manifest itself in the UK's inflation statistics, as the weaker currency makes the price of foreign imports more expensive. Figure 6 (shown below) depicts a type of inflation referred to as cost-push inflation because such factors as rising fuel costs or a depreciating currency produce a rise in import prices. When the Bank of England, raises interest rates, it encourages consumers to save their money instead of spending it, which is one way to slow down economic growth and decrease inflation. On the other hand, if the Bank of England lowers interest rates, it encourages consumers to spend money, raising inflation rates in the economy. Sometimes the Bank of England will decide to keep the interest rate the same, if it believes the inflation change is only a short-term blip. For example, in 2011, the UK's "CPI [Consumer Price Index] inflation reached 5%, but the Bank of England kept base rates at 0.5%.

This showed the Bank of England felt underlying inflationary pressure (is) low” (Pettinger) enough that it did not need to raise the interest rate.

Figure 6: Cost-push inflation graph (PI = Price Level, P=Price, P'= New Price, Y= Real Output, Y'= New Real Output, AS= Aggregate Supply, AS'= New Aggregate Supply, AD = Aggregate Demand).

Source: Sillers, Don. “Cost-Push Inflation.” Quora. Web. 17 Apr. 2017.



Since central banks typically aim for a target CPI of around 2-3%, the Bank of England took precautionary measures following the referendum, to decrease the interest rate. *The Wall Street Journal* reported that in August 2016, “the Bank of England cut its benchmark interest rate to the lowest in its 322-year history and revived a financial crisis-era bond-buying program to cushion the UK economy from the aftershocks of the vote to leave the European Union,” (Douglas) thus decreasing the interest rate from 0.5% to 0.25%.

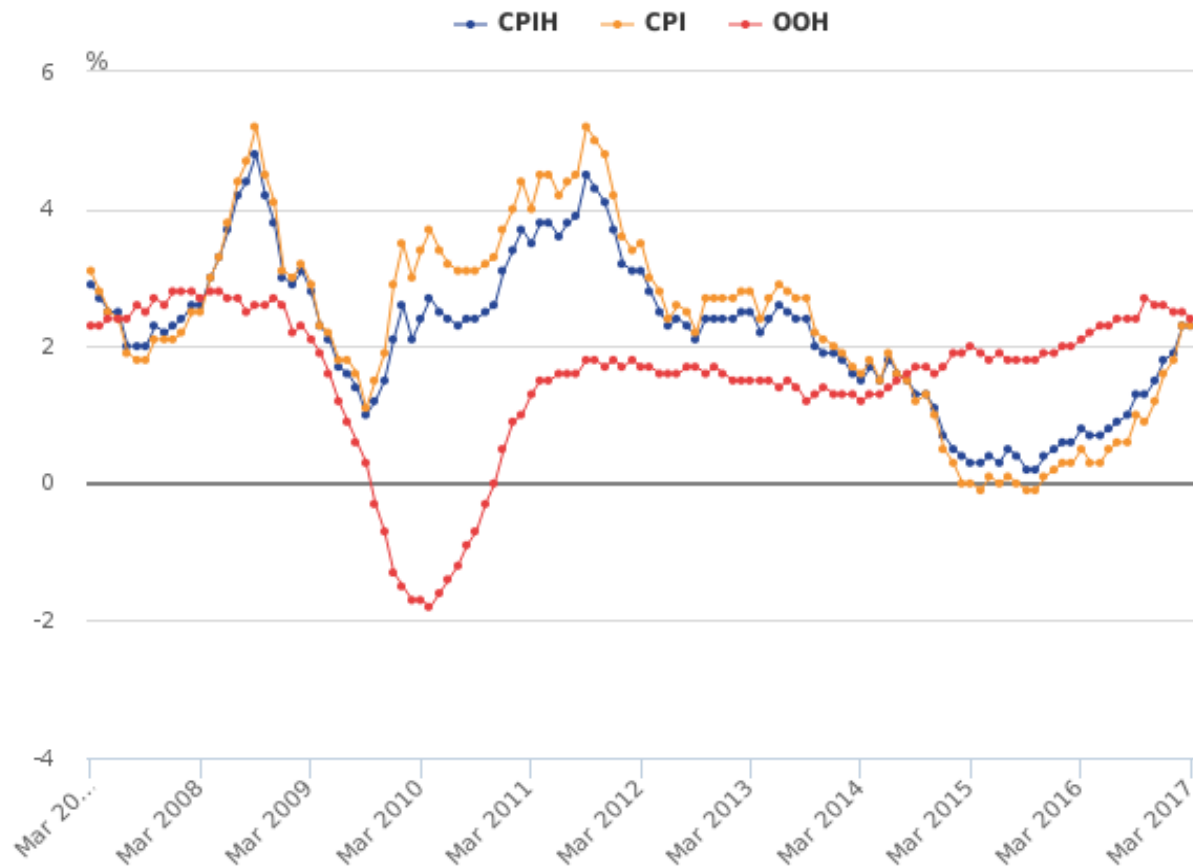
Although the inflation rate reached the target level following this adjustment, the Bank of England decided, in March 2017, to leave the interest rate at 0.25%. *The Guardian* argued that “the Bank doesn’t need to raise interest rates to bring down inflation,” (Elliot) since the rising prices and unchanging wages will have a deflationary effect on the UK economy, as “consumers [tighten] their belts and companies [invest] less” (Elliot). *The Guardian* also claimed that although inflation will most likely decrease on its own, eventually, if the pound does not recover or crashes again, inflation could rise to over 4%. If this were the case, Britain’s central bank would most likely have to raise interest rates to lower inflation levels (Elliot).

Typically, without changes in interest rates, a 10% devaluation in a currency will lead to a 2-3% increase in prices in that economy. Because of the roughly 15% devaluation of the pound, that equates almost to a 4% increase in prices. The Office for National Statistics, reported a rise in inflation before the decrease in interest rates from a CPI level of 0.3%, in May 2016, the month before the referendum, to 0.6%, in August 2016, the month Britain’s central bank lowered interest rates. Following the decrease in interest rates, the inflation rate jumped up to 1%, in September 2016, and has continued to rise to a rate of 2.3%, in March 2017 (“Time Series”). The CPI level of 2.3% is higher than any rate since September 2013, as shown in Figure 7, below. However, the UK also has the lowest benchmark interest rate in its recent history. Because of the devaluation of the pound, in addition to the record-breaking, low-interest rate, inflation is likely to continue to increase until the interest rate rises or the pound gains strength.

Figure 7: Monthly rates of CPIH (Consumer Price Index including Housing Costs), OOH (Owners Occupied Housing Costs) and CPI (Consumer Price Index) from March 2007 to March 2017.

Source: Office for National Statistics, comp. “CPIH, OOH Component and CPI 12-month Rates for the Last 10 Years: March 2007 to March 2017.” UK Consumer Price Inflation:

Mar 2017. Web. 17 Apr. 2017.

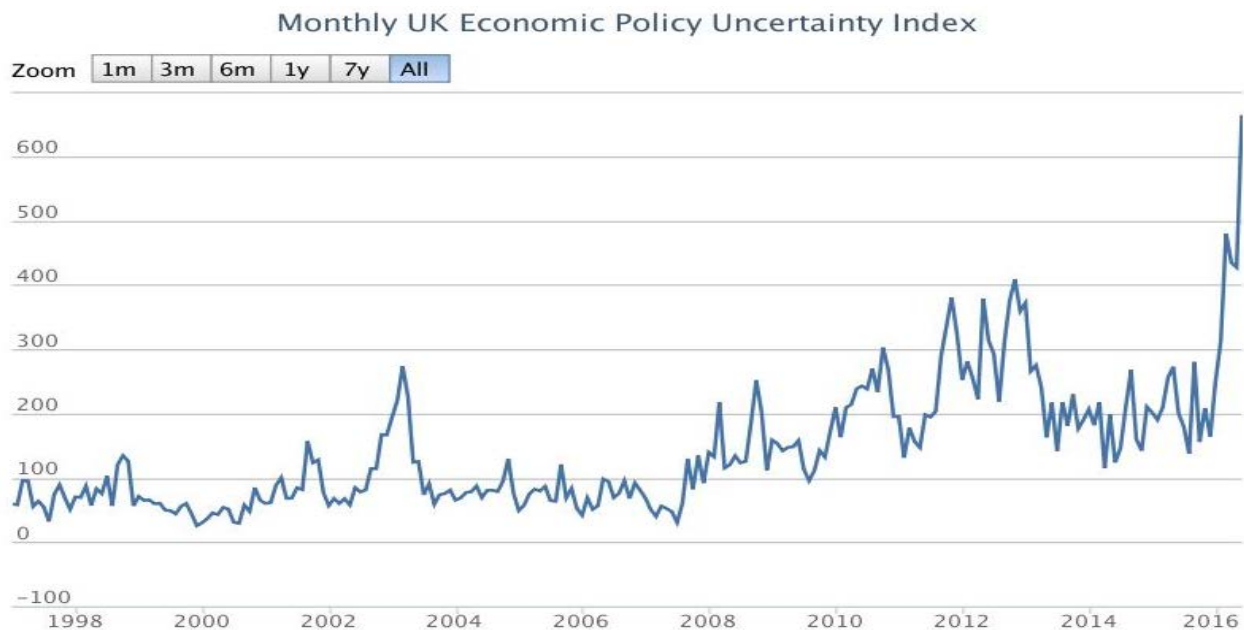


As the pound decreases, certain groups of people will benefit from the weaker currency, while others will lose money. Due to the rising prices of the majority of goods and the high level of uncertainty regarding the future economy, it is likely that consumer spending will decrease initially. Because UK citizens will notice these changes and fear the unknown consequences of Brexit, investment within the economy and entrepreneurial actions will most likely slow. Foreign direct investment, or FDI, will also surely decrease after Brexit, both from the high level of uncertainty and from the higher trade costs with the EU. Productivity in a country increases with FDI, resulting in increases in wages and production levels. “Multinational firms bring in better technological and managerial know-how, which directly raises output in their operations.

FDI also stimulates domestic firms to improve—for example, through stronger supply chains and tougher competition” (Ottaviano). This decrease in investments and spending in the UK would lead to a retraction in the economic growth and could cause a recession for the nation, provided the retraction continues for two or more consecutive quarters.

Figure 8: The level of economic uncertainty, per month, in the UK showing a rise in uncertainty following Brexit.

Source: Pettinger, Tejvan. “UK Economic Uncertainty.” Economics Help. Web. 21 Dec. 2016.



Benefits from the Weak Pound:

With the pound’s current low rate, foreign buyers now need less currency to buy the same amount of goods in the UK. This benefits foreign tourists coming to the UK, as well as foreign investors buying British assets or real estate. Another group of people benefitting from this change will be UK exporters. Calculating profit involves taking total income minus costs. Thus,

because the exported goods cost less to produce, exporters should be able to increase their profits while charging the same price. Another option for UK exporters may be to decrease their prices, now that costs are lower, which could increase demand for their products. Although this is typically the case with lowering prices, recent British exports have been shown to be more inelastic, meaning they are less sensitive to price changes. In other words, demand would not rise significantly due to lower prices. However, overall, as the pound falls, the expectation is exports will become more appealing than imports, reducing the UK's current account deficit.

Although Brexit could cause a decrease in economic growth, the weaker pound helps balance out this uncertainty and generates domestic demand with lower prices. Lastly, if the pound continues to weaken, British workers are more likely to seek employment outside of the UK, such as in the United States, where they could earn more in wages due to the foreign currency's strength when compared to the pound.

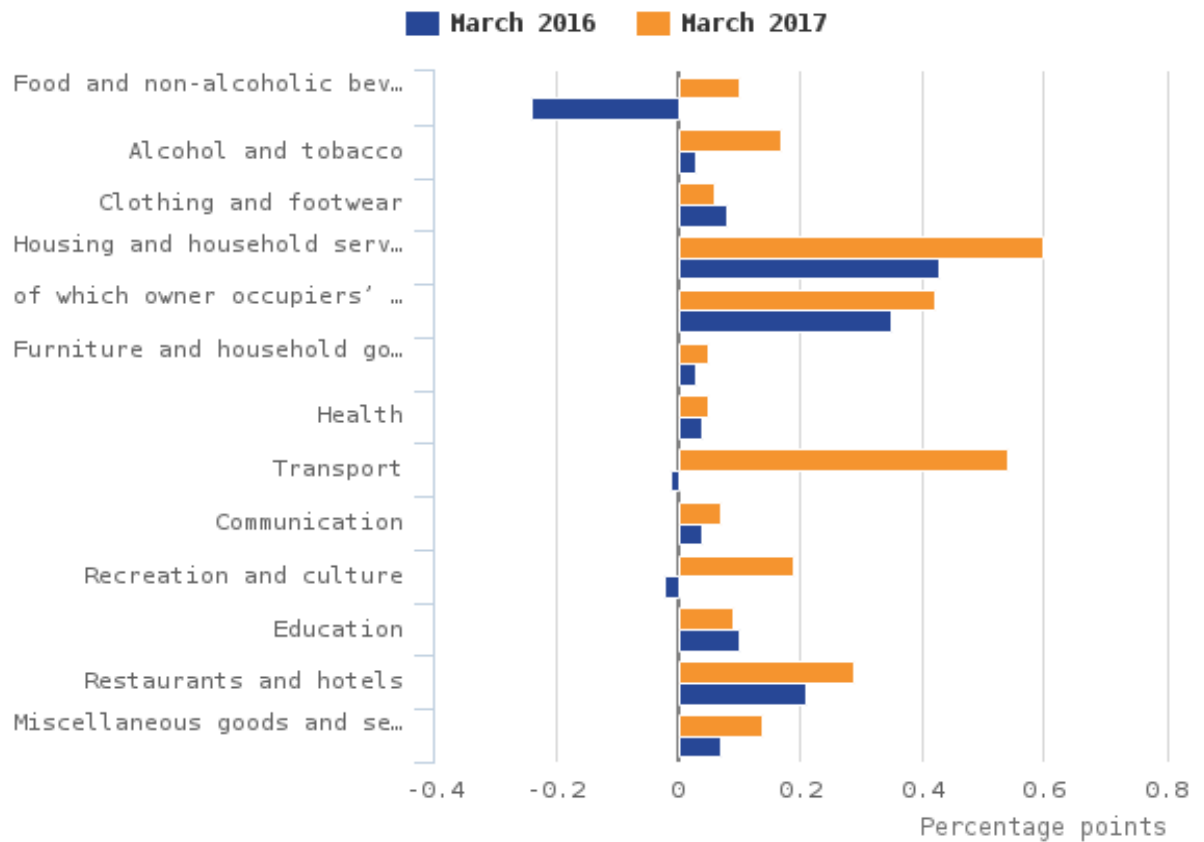
Disadvantage from the Weak Pound:

Some individuals face significant disadvantages caused from the weakening UK pound. One group that experiences a negative effect is British citizens buying imported goods. British consumers will see a rise in prices for gas, transportation, food, and other products found or manufactured abroad. This rise in prices increases inflation, as seen in Figure 9 below, when comparing CPIH rates in only one year. Firms will also see this price increase when importing raw materials from other countries.

Figure 9: Contributions to the CPIH 12-month rate, comparing prices of goods from March 2016 through March 2017.

Source: Office for National Statistics, comp. "Contributions to the CPIH 12-month Rate: March

2016 and March 2017.” UK Consumer Price Inflation: Mar 2017. Web. 17 Apr. 2017.



Apart from the much higher transportation costs, UK citizens will also find that it is now much more expensive to travel to other countries and purchase goods and services, due to the fact that the weak British pound is equivalent to less foreign currency. As the pound loses value, the UK also holds less appeal for skilled, foreign professionals, choosing where to work. Additionally, due to the devaluation of the pound and uncertainty of the UK economy, less foreigners might opt to invest in the UK, thus reducing capital flow and stimulating the vicious cycle of devaluing the pound.

Employment:

In the months following the June 2016 decision to leave the EU, the UK's labor market showed some immediate signs of negative effects but nothing significant compared to impacts on other areas, such as inflation. Despite an initial shock to the economy, during which time employers may have had to lay off workers to overcome costs incurred by the dropping pound, unemployment and employment levels have actually improved and have reached record levels in the December 2016–February 2017 period (Clegg). The fact that these rates have recovered from the announcement of Brexit indicates that the economy is actually quite strong, currently, and may not experience the harsh effects first anticipated.

Many policymakers and economists had assumed the unemployment rates would increase following the referendum and upcoming implementation of Brexit. In the initial months after the June 2016 referendum, the rise in unemployment made this upward trend seem likely. In May–July 2016, before the referendum had a chance to affect the labor market, the Office for National Statistics reported that the unemployment level was at 4.89%. In the next period, from June–August 2016, estimates showed that the unemployment level had risen to 4.95%, which the announcement of Brexit quite possibly explains. Although this original spike is evident, following this period, besides some minor fluctuations, the unemployment rate recovered and steadily decreased. By the December 2016–February 2017 period, the Office for National Statistics reported that the unemployment rate was 4.67%, which is the lowest unemployment rate since 1975 (Clegg).

Similarly, employment levels experienced an initial drop, but by the next period the estimated rates already had recovered and are also currently at record lows. The Office for National Statistics reported that, following the referendum, employment rates slightly decreased,

compared to the May-July 2016 period, when the rate was 74.54%. However, after a few months of variations, the employment rate consistently increased, from September 2016 to February 2017. The reported December 2016-February 2017 rate of 74.62% proved to be the highest rate since the start of an analogous measurement in 1971 (Clegg).

However, unlike improving unemployment and employment rates, the wage-growth rate is the one area directly related to the labor market that has experienced negative effects, following the referendum. The Office for National Statistics reported that, comparing the growth between December 2015-February 2016 with December 2016-February 2017, “in real terms (that is, adjusted for consumer price inflation) regular pay for employees in Great Britain increased by 0.1%, the lowest annual growth rate since July to September 2014” (Clegg). The fact that the growth rate is the lowest rate since 2014 indicates that despite a positive wage-growth rate, companies are still holding back on giving raises and maintaining the same wages from the previous year. This wage stagnation reveals that there are noticeable effects in the labor market, most likely due to the uncertainty that employers have regarding the economy’s future.

Although the unemployment rates and employment rates indicate promise for the economy, if the wage rates do not improve, workers in the labor market will continue to struggle financially. In order to keep up with inflation and rising consumption prices, workers in the labor market rely on wage rates to increase enough to offset that inflation; however, based on the reported statistics, this is not the case. If prices continue to rise and wages stay at the same level, the citizens of the UK will begin to feel significant economic pressure.

Chapter 2

Reasons for Brexit

Although the referendum came down to an extremely close percentage of votes, the majority of the UK population still voted to leave the EU, based on various reasons. Some of the strongest arguments to leave the EU fall within three categories, relating to sovereignty, economics, and finances, as well as the international influence of Brexit.

Sovereignty

The purpose of a union, such as the EU, is to integrate the economies and legislation of many countries in order to create uniformity among all members. However, as the EU grows and attempts to form a closer union among its member states, the UK must also forfeit its power and control over certain matters. Amid the continued growth of globalization, individuals have recently begun to lose trust in organizations (e.g., NATO and the EU) that have taken increasing power away from national governments. Following the financial crisis of 2008's sudden spread of instability to economies around the world, many now feel that regaining as much domestic power as possible will help limit the UK from suffering for other nations' problems. Individuals fighting for the Leave campaign felt that it was time for Britain to regain its sovereignty, rather than to continue to answer to other foreign EU officials who dictate decisions for the UK, such as on matters of law and trade.

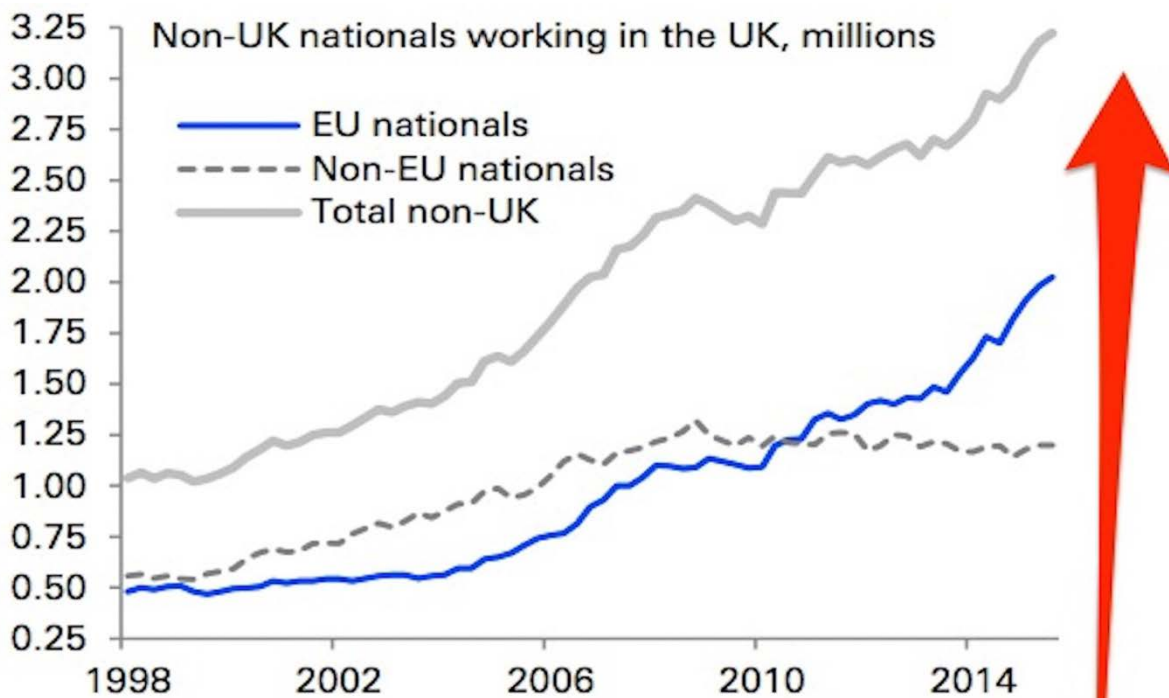
Immigration:

One benefit of the EU is that, by law, EU citizens can live, work, and travel freely in any of the EU countries. Although this connectivity is efficient and makes the lives of many citizens easier, it also creates issues with regulating immigration. EU law mandates that the UK accepts

all EU citizens who desire to live there, including individuals who have recently immigrated to Europe from other areas of the world, regardless of their English skills or employment prospects. “The combination of European Union expansion in 2004 and 2007—which brought in poorer countries like Bulgaria, Romania, and Poland—and the Eurozone economic crisis has influenced substantial internal immigration to Britain and its relatively strong economy” (Siegel). Although having loose borders increases efficiency and creates job opportunities for Europeans all across the EU, in the last ten years the inflow of immigrants skyrocketed for the UK, as evidenced in Figure 10, because the nation did not have the power to limit the number of immigrants coming in from other European countries.

Figure 10: Rise in non-UK nationals working in the UK, mostly caused by membership in the EU.

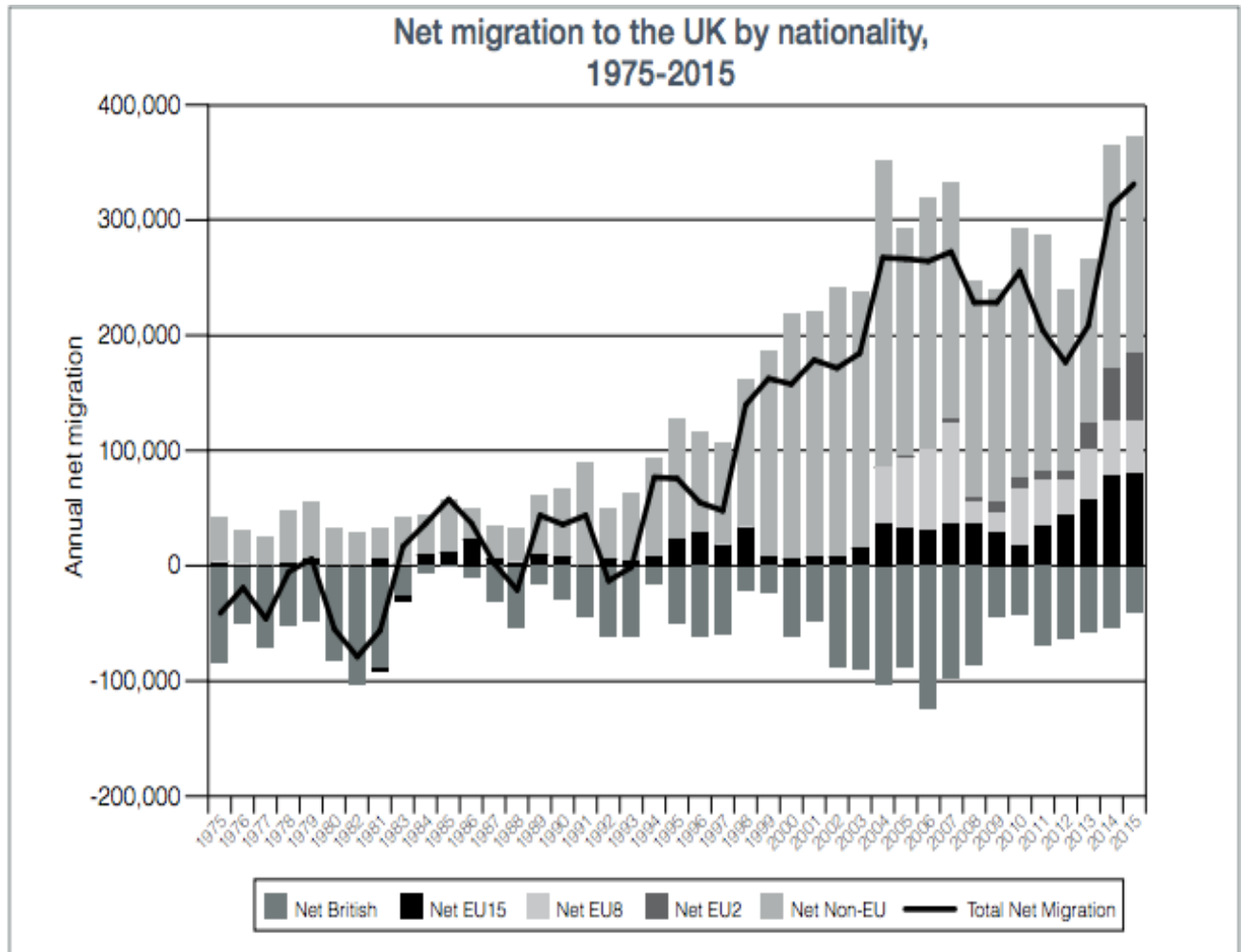
Source: Brinded, Lianna. “Rise in Non-UK Nationals Largely Due to EU.” Business Insider. Web. 11Dec. 2016.



By leaving the EU, the UK would be able to control its own immigration. The UK could then choose to permit the entering of only educated individuals, fluent in English, who would benefit its economy, rather than being required to allow entrance to every EU citizen, including unskilled workers. Due to the UK's strong economy and the large number of high-paying jobs available in cities such as London, many workers from struggling Eurozone countries have moved to the UK in search of work, especially after the financial crisis of 2008. In 2015, "The UK absorbed 333,000 new people, [which is] a significant number for a country Britain's size" (Lee). If these immigrants were skilled and educated upon moving to Britain to do a certain job or trade, they arguably took jobs away from other qualified British workers. Douglas Carswell, a British politician noted that "the greatest failing of the immigration system is that it discriminates against precisely the sort of people who, in a world of increasing labor mobility, we might actually want to attract" (Carswell). Politicians, such as Carswell, who argued for Brexit, felt that it was time to regain control over immigration and be able to bring only qualified immigrants into the UK, while limiting the number of immigrants to only the number needed to meet the current needs of the economy.

Figure 11: Number of migrants to the UK over 40 years, by nationality.

Source: "Net Migration to the UK." GOV.UK. Web. 6 Jan. 2017.



By exiting from the EU, the UK will finally be able to control its immigration numbers and decrease the number of immigrants, something the government has falsely promised in the past. The UK government promised that, after Brexit, it will continue to accept “genuine students and those with the skills and expertise to make [the] nation better still. [They] have already confirmed that existing EU students and those starting courses in 2016-17 and 2017-18 will continue to be eligible for student loans and home fee status for the duration of their course” (United Kingdom Department). Following Brexit, the country will be able to focus on attracting skilled migrants who fill a need to help propel the country forward. Commentators, such as

Stephen Booth and Nile Gardiner, hope the UK will implement an immigration policy mimicking that of Canada or Australia, which rates possible immigrants using a point system, based on their skills and their ability to contribute to society, only allowing those with a certain score to be eligible for a visa (Siegel).

With terrorism and terrorist groups on the rise, immigration has become a controversial topic in many countries around the world, including the UK. Many individuals often blame recent terrorist attacks on weak border control and believe that tightened immigration regulations and tougher immigration screening processes could minimize terrorist attacks. Unlike the US, a nation that deals with similar tensions regarding immigration, the UK has no control over who enters the country, due to the free movement of any citizen, from all 28 EU nations. Those fighting for the Leave campaign use gaining control over their nation's immigration once again and giving the UK the ability to crack down on letting potential risks enter the country as one of their main arguments.

Law:

The key argument for Brexit, regarding legislation, is that the UK will once again regain sovereignty over the lawmaking process and be in full control of the laws governing its nation. In recent years, the EU has increased its authority in an effort to expand the amount of globalization among the member states, taking a growing amount of power away from its members' individual domestic decisions. The EU currently has complete control on issues such as competition, copyright and patent, and agricultural laws.

The Leave campaign argues that Britain has little control over making its own laws and must follow the legislation created by the EU. The European Commission, located in Brussels,

Belgium, is responsible for drafting and proposing new legislation for the European Union, in accordance with the Ordinary Legislative Procedure (“Legislative Powers”). Once the European Commission has proposed legislation, both the European Parliament, made up of 751 elected representatives and the Council of the EU, made up of one representative from each member state, must agree upon and approve it (“How Plenary”). Since the 1972 European Communities Act or ECA, these EU laws, created in Brussels, instantly become law in all member states and must be enforced throughout the entire EU (“The 1972”).

Regardless of the circumstances and the opinion of the UK Parliament, EU law is binding and will always override the previous domestic legislation of the member state. Following Brexit, the UK aims to have the Great Repeal Bill annul the ECA and transform collective laws into domestic laws (Mason). This would allow the UK Parliament to evaluate each law imposed by the EU and determine whether the country should keep the law in place or modify the law to meet the needs of the UK. The Members of Parliament will begin discussing the Great Repeal Bill in May 2017, although this new legislation will not take effect until the UK officially exits the EU in March 2019 (Mason). “Leaving the EU will mean that [UK] laws will be made in London, Edinburgh, Cardiff, and Belfast, and will be based on the specific interests and values of the UK” (United Kingdom Department). Upon the passing of the Great Repeal Bill and its implementation in 2019, the UK government will be able to reevaluate each EU law and have the power to adapt the laws to fit the needs of the UK citizens. It will also be able to discard any EU law, giving the UK complete autonomy over transforming its nation to fit its national vision.

Although it is difficult to estimate the number of laws deriving from the EU in the UK overall, there are estimates that predict the EU created anywhere from 13-62% of UK laws between the years 1993-2014 (Wessing). “In 2010, the UK government estimated that about 50

percent of UK legislation with ‘significant economic impact’ originates from EU legislation,” (Telegraph View) indicating that even if the number of laws derived from the EU is closer to the low estimate of 13%, half of the laws that affect the UK economy are not created by the UK. The Leave campaign argued that by allowing the EU to create roughly half of the laws that hold considerable impact on the UK economy, the UK economy is unable to reach its full potential. Because the EU creates legislation for numerous nations, all with varying levels of financial stability and success, some member states benefit more from the laws than other member states due to their diverse economic standing. Given the strength of the UK economy, laws that have economic influence could have a negative impact on its economy while having a positive effect on countries in the Eurozone that are struggling financially.

Figure 12: Percentage of UK laws created by the EU.

Source: Full Fact Team. “What Proportion of UK Law Comes from Brussels?” Full Fact. Web. 6 Jan. 2017.

What proportion of UK law comes from Brussels?

House of Commons estimates for various definitions of



Crime:

The European Court of Justice is the highest court of the EU and enforces all European Union Laws, ensuring the legislation created in Brussels applies equally to all member states (“Court of Justice”). Due to some overlapping laws across member states, the European Arrest Warrant allows extradition of British citizens to all other EU countries and permits foreign courts to try any EU citizen, even for minor crimes. Nigel Farage, the former leader of the UK Independence Party, argues that because of the European Arrest Warrant, innocent British citizens might have to serve a full sentence in a foreign prison, following an unfair trial (Parfitt). Although the EU law should be uniform across all member states, some countries convict alleged criminals with little evidence to support the case or convict British citizens for domestic crimes that arguably may not pertain to British citizens (Parfitt). Due to the European Arrest Warrant, the British government does not have jurisdiction to interfere with another EU nation’s court system, even if the UK considers justice did not serve its British citizen.

Economics/Finances

As seen in the financial crisis of 2008, increasing globalization and intertwining economies across the world can exasperate the ripple effect caused from financial troubles in one nation. The more interconnected countries are with one another, the more likely the nations will suffer from an economic crisis elsewhere. One example of this theory is that following the financial crisis of 2008, developing countries, such as nations in Africa with little involvement in global markets, saw almost no change to their economy, while most developed nations around the world experienced a sudden crash in their economies.

Trade:

By ending its EU membership, the UK would be able to diversify its trade partnerships worldwide and develop as a self-reliant entity. As a member of the EU, the UK has not been able to establish independent major trade deals with emerging markets, such as India or China. Because the EU relies on the economic policy of protectionism to limit trade through quotas, strict trade regulations, and imposing tariffs on imports into the member states, this prevents the UK from creating new, more beneficial free trade agreements. “The protectionist EU is refusing point blank to consider talks with China over a free-trade deal—something which has thwarted British companies for decades” (Gutteridge). For years, the EU has attempted to negotiate trade deals with other major economies, such as with the United States and Canada, but “both the proposed TTIP trade deal with America and its partner agreement CETA, with Canada, have run into serious difficulties and are facing the very real prospect of collapsing after nearly a decade of talks” (Gutteridge). The UK, which is more open to the idea of free trade and is willing to be flexible in an agreement toward free trade, would most likely be able to speed up an agreement if it was acting on its own.

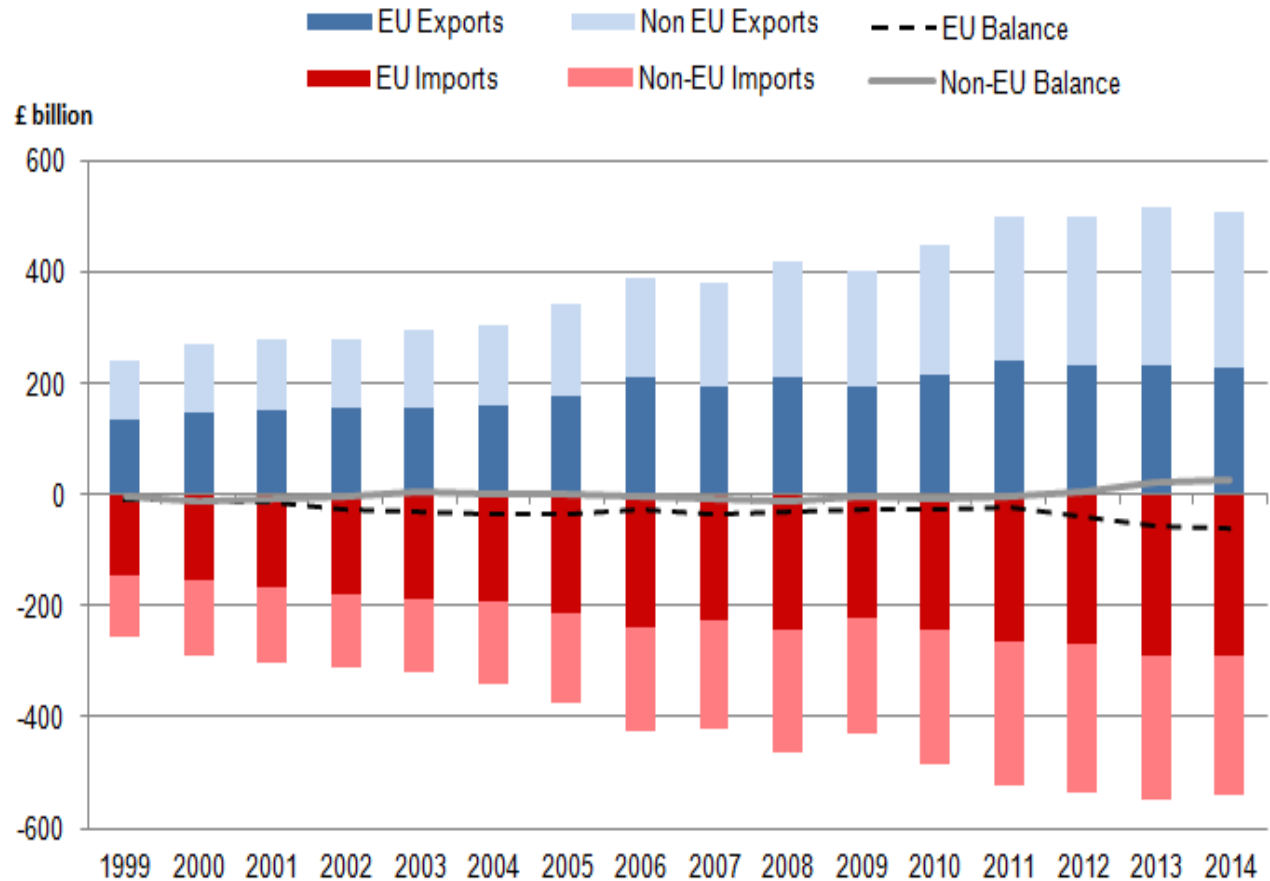
By separating from the EU, the UK would finally have a chance to start over and break away from the EU at a time when the EU is struggling to remain competitive. Two main reasons the EU has lost its competitive edge in global markets is from labor costs rising faster than productivity and from underinvestment with “investment by non-financial corporations [...] now 15 percent lower than before the 2008 crisis” (Bershidsky). Currently, Europe has extremely low inflation levels, causing prices of goods to decrease from an insufficient demand, while manufacturing costs remain high. Although the UK has failed to increase its individual competitiveness and improve its own structural issues, compared to other EU countries, such as

Germany, leaving the EU and getting a fresh start may be what the UK economy needs before the economy spirals into a decline that would make recovering extremely difficult.

Given that the amount of UK imports compared to exports from the EU continues to increase, with the EU making up 53.2% of UK imports of goods and services and only 44.6% of its exports, the UK's trade deficit "is widening notably, reaching £61.6 billion in 2014 compared with £11.2 billion in 1999" ("How Important"). Because the UK imports more from the EU than it exports to the EU, it is likely that the EU would want to continue trading at the same level following Brexit, rather than the EU cutting all trade ties with the country. The UK's exports to the EU are down to 44.6% from the 54.8% rate they were at in 1999, as the nation has increased recent exports to non-EU countries around the world ("How Important"). The UK has begun diversifying its exports to non-EU countries at a rate even faster than its imports from non-EU countries, creating a trade surplus. "When the UK leaves the EU, [it] aims to have as seamless and frictionless a border as possible between Northern Ireland and Ireland, so that [they] can continue to see the trade and everyday movements [they] have seen up to now" (United Kingdom Department). The UK will still most likely keep high levels of trade with all EU member states through a trade agreement, while being able to continue to grow trade with nations around the world.

Figure 13: UK exports and imports to EU and Non-EU.

Source: "UK Exports and Imports to EU and Non-EU." The National Archives. Web. 05 Jan. 2017.



Leaving the EU will also allow the UK to hold more power in its trade agreements and decisions regarding the global trade market. Without Brexit, the EU acts collectively as one customs union, with all 28-member states having one tariff and trade policy. Now, at World Trade Organization (WTO) meetings, the European Commission represents all 28-member states; but following Brexit, the UK will hold its own seat and therefore hold more power in decisions of global trade.

Jobs:

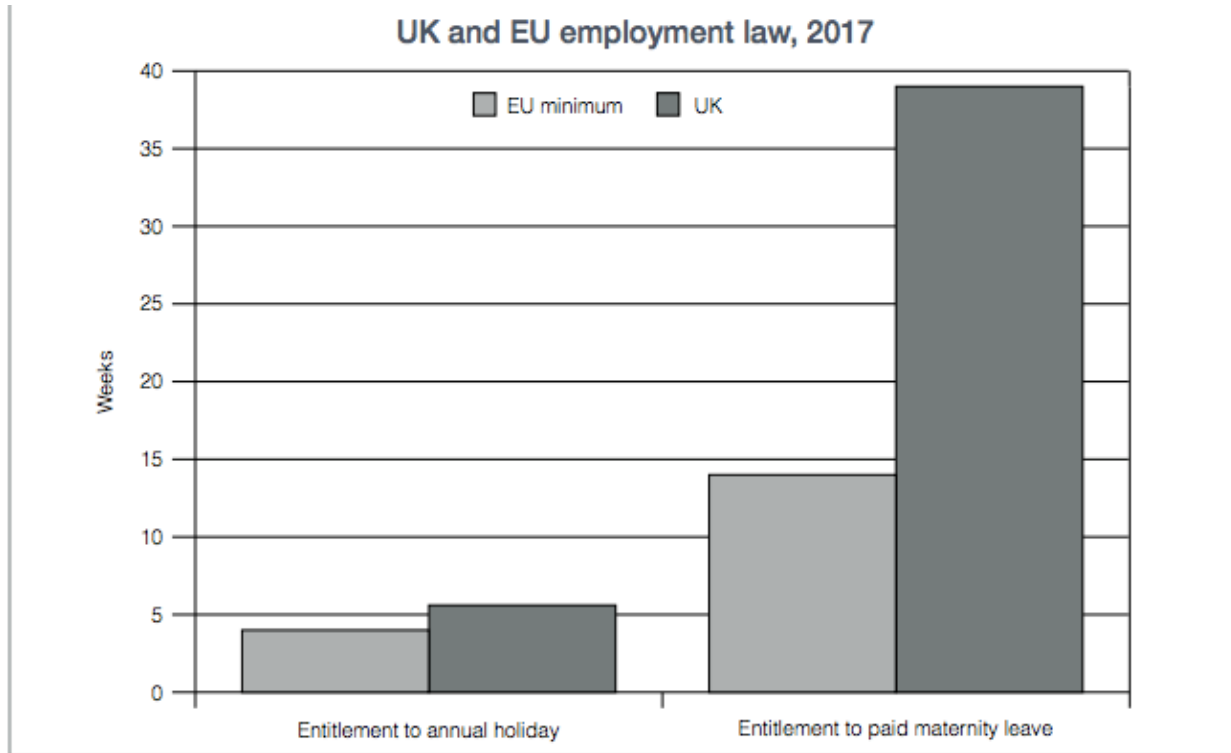
The UK leaving the EU means that citizens would no longer have free movement of labor, thus preventing citizens of other EU countries from working in the UK by default, which

could have a positive impact on jobs and wages for British citizens. The drastic decline in immigrants entering the UK would cause the labor market as a whole to decrease. “The growth in the number of EU workers in Britain has accelerated sharply since 2013, rising from 1.4 million to 2.1 million in the last three years, as Britain’s relative prosperity has established it as ‘the jobs factory of Europe.’ Citizens of other EU countries now account for 6.8% of the British workforce, compared to [...] 2.6% a decade ago” (Travis). If Brexit is able to limit migrant workers entering the country, there will therefore be more jobs available for British citizens that had previously gone to immigrants and less competition for jobs overall. This cut in immigration would also most likely lead to an increase in wages for native UK employees who work lower-wage jobs that companies often fill with a large portion of migrant workers.

In order for a UK company still to attract high-quality workers and not risk losing possible employees to other companies, due to the decreased competition, wages may increase. Because companies would still need the same number of employees although the pool of applicants would be much smaller, workers would gain more power and force companies to maintain a higher quality work environment or risk losing employees to other open jobs in the same field. “Moreover, [the UK] Government has committed not only to safeguard the rights of workers set out in European legislation, but to enhance them” (United Kingdom Department). In recent years, the UK has taken “a number of independent actions [...] to protect UK workers and ensure they are being treated fairly, and in many areas the UK Government has already extended workers’ rights beyond those set out in EU law” (United Kingdom Department). Although this shift in power would be beneficial for workers, it could have a negative impact on consumers, as companies would most likely need to raise prices to offset this increase in wages.

Figure 14: Visual comparison between employment benefits in the UK vs. EU.

Source: “UK and EU Employment Law” GOV.UK. Web. 6 Jan. 2017.



At this point, with so much uncertainty still looming, it is hard to predict the exact effect Brexit will have on trade and investment. However, if breaking away from the EU improves the UK's financial situation, a rise in job growth would result. The idea of free labor movement is to create efficiency and opportunities across all member states. Currently, however, the UK economy is standing above many of the struggling Eurozone countries, causing “one-way traffic” (Swinford) of individuals flooding into the British economy. Since strong economies outside of the EU, such as Norway, have managed to succeed without being a member of the EU, there is hope that the UK will stay afloat without the help of a large unionization.

International Influence

Although the UK is a small nation geographically, countries around the world have much respect for the UK, due to its powerful history and current prosperity. Britain has been a superpower for generations and is a well-regarded country worldwide, which is why many feel that leaving the EU would not hurt and may even help the UK's international influence. "The UK is a member of the UN Security Council, the fifth largest economy in the world, a member of the G7, and a leading member of NATO," (Chope) which will not change if the UK leaves the EU. "Along with France, [the UK is] the only EU Member State with an independent nuclear deterrent and a permanent seat on the UN Security Council" (Hall). Some individuals for Brexit feel that, if anything, EU membership is hindering the UK's global influence because weaker nations hold back more powerful member states, like the UK. At other times, the EU membership itself has inhibited the UK, such as "when we're negotiating issues related to Russia [...] particularly in relation to Ukraine," (Chope) when the EU offered Ukraine an EU Association Agreement.

Defense:

The Leave campaign argues that the UK's exit from the EU would minimally affect the national security and defense of the UK. Recently, many have criticized the EU on its effectiveness for security and defense by arguing that the EU's vast size actually discourages members from openly sharing secret intelligence information. "The Islamic State attacks on Brussels cruelly exposed the longstanding weaknesses and lack of cooperation between European spy agencies, opening the way for renewed arguments about whether the UK would be safer inside or out of the European Union" (MacAskill).

Another example of a time when the EU's overarching defense system may have been ineffective is when "Europol, the main law-enforcement agency which models itself on the FBI, failed to disrupt the ISIL network responsible for the atrocity, which had cells operating from Greece to France" (Coughlin). The UK is already taking measures to prevent terror attacks on its own, which it would continue to do after Brexit. As of now, the UK does not rely on the EU to ensure the safety of its citizens and uses its membership to "Five Eyes," an elite network for sharing intelligence among Australia, Canada, New Zealand, and the US, to help use intelligence to protect the nation (MacAskill).

Due to the globalization of resources and the EU's power, it is possible that in the near future the EU will expect its members to participate in a joint EU army. Up to this point, the UK has had a strong, independent military force that the nation does not want to see dissolved into an EU army. If the EU compelled the UK to join a combined military force, the UK would be responsible for fighting all battles connected to the EU, rather than issues directly concerning the UK. Most individuals who believe the UK should leave the EU fear that the creation of this super army would not be more effective but instead undermine NATO and push away other allies, such as the US. By leaving the EU, the UK will avoid joining a common army and be able to make its own military decisions, including determining its own allies, military involvements, and its military budget and expenditures.

The UK has an extremely powerful military and is the only other European country, besides France, that spends 2% of its GDP on its military (Coughlin). As long as the UK remains in NATO and maintains its strong allies, such as the US, the UK should not see a significant impact in defense from leaving the EU.

Figure 15: Amount spent and resources of top five military spenders in the world.

Source: “The World's Top Military Spenders.” The Day. Web. 5 Jan. 2017.



Some individuals with the Leave campaign also worry about the UK's nuclear weapons, since the UK's nuclear base is located in Scotland (Sengupta, “What Does”). Because the majority of Scottish citizens voted to stay a member of the EU in the June 2016 EU Referendum, Scotland is considering holding a second referendum to vote on becoming an independent nation and remain a member state. If the outcome of the referendum leads to Scotland becoming a separate entity, apart from the UK, the nation will most likely no longer want to store the UK's nuclear weapons on Scottish land. Although Nicola Sturgeon, the Scottish first minister,

continues to fight for a Scottish referendum before 2019 (Carrell), the results should not have a significant impact on the UK's nuclear weapons. Even if Scotland decides to leave the UK, the UK government can relocate the weapons to England or negotiate a deal with Scotland.

Chapter Three

Reasons Against Brexit

Although the majority of the voters chose to leave the EU, in the referendum vote, nearly half of the voters wanted to remain a member of the EU. Just as with the Leave campaign, some of the strongest arguments for the Stay campaign fall within three categories, relating to sovereignty, economics, and finances, as well as the international influence of Brexit.

Sovereignty

Although some aspects of sovereignty may be lost when becoming a member in the EU, the reality is society has evolved over the centuries, leading to more globalization. With modern technological advancements, countries that work together by increasing economies of scale and practicing free trade are more efficient and typically more successful. The desire to regain control and power, while isolating the country from the rest of Europe, may not be the best stance economically in the current globalized world. The issue of sovereignty is one of the key arguments for the Leave campaign; however, because most important policy decisions are currently determined with a unanimous EU vote or do not fall under the EU jurisdiction, it is unclear how much power the UK would actually regain from leaving the EU. Besides immigration policy, the UK has autonomous control over the majority of issues, including the UK's National Health Service and healthcare, education, welfare and benefits, and foreign policy. Retaining the absolute sovereignty Great Britain once prided itself on may no longer be worthwhile if it also ends up diminishing the financial prosperity of UK citizens.

Immigration:

One issue that has become increasingly relevant in discussions of globalization is the increasing level of immigration. Although Brexit promises to cut back on immigrants accepted into the UK and give the country more control in who it lets enter, one important fact to keep in mind is that Brexit will not go into effect immediately and these promised declines in immigration will not be immediate, if they happen at all.

In February 2017, the UK government published its official Brexit White Paper, which outlined Theresa May's plans for exiting the European Union. The document revealed that immigration policy changes and limits to new entry would most likely take effect gradually to give impacted individuals and companies time to adjust. Not only will these effects manifest gradually, but also the earliest possible time that changes could occur would be when the UK officially leaves the EU, in March 2019. This announcement "raised concern among campaigners that the Government may take many years after Brexit to achieve its target of reducing annual net migration to the 'tens of thousands'" (Hall). Delaying the strict enforcement of immigration worries many campaigners who fear that this period before the new policy is enforced would give hundreds of thousands of EU citizens the opportunity to move to the UK before the borders shut down. If a rush of immigrants tries to enter the country at one time, it could cause a more severe immigration problem and make matters worse, rather than improving them.

Almost half of the immigrants entering the UK are from countries outside of the European Union, which means this portion of immigrants would remain unchanged due to the effects of Brexit and the removal of free movement. In addition to not taking effect for at least two years, another factor potentially affecting immigration after Brexit is the possibility that the

UK will opt to remain in the European Economic Area as an alternative to the EU. European countries that are not members of the EU, such as Norway and Iceland, use this alternative to gain the economic advantages of the EU. This decision has the ability to allow free movement of people to remain, since free movement applies to these European Economic Area nations, in addition to the original EU member states.

Even if the UK does not opt to remain in the European Economic Area, in order to continue ties and keep access to the EU single market, the UK may promise to accept a certain number of EU immigrants in return. If the UK later opts to stay in the European Economic Area or make a deal with the EU, immigration will no longer be an aspect significantly changed from Brexit and therefore claiming to need better control over immigration would not be a useful argument for leaving the European Union.

Besides the immigration concern regarding security, “one of the most frequently raised allegations about immigrants entering the UK is that they aim to exploit the national welfare system” (Dearden). Although this is a common misconception, multiple studies show that “European migrants pay more in taxes than they receive in benefits” (Dearden). In 2013, the European Commission reported that less than 5% of unemployed migrants are those who came from other EU countries with less than 38,000 receiving unemployment benefits (Dearden).

Despite the high number of individuals freely moving from EU countries into the UK, the majority of these individuals are actively participating in the UK economy and are not taking advantage of the system. According to a University College of London study, “recent immigrants have made a net contribution of £20 billion to the UK over the last ten years,” (Dearden) which would be an unattainable figure with only British-born citizens. An estimated

1.2 million UK citizens also currently have the benefit of living in other EU countries (O'Leary), which allows citizens to settle in a location that is most practical for their lives and prosperity.

In addition to the delay of enforcement and loss of net contribution to the economy, one added obligation the UK will most likely gain from leaving the EU would be having full responsibility of enforcing its borders. Rather than having border controls in Calais, France, the French government is pushing to have border controls moved to Dover, England. The switch of location of these controls would add significant pressure to the border control guards in the UK and create overwhelming lines at the checkpoint. Currently, the UK has help from other EU countries, such as France, in handling the inflow of asylum seekers and migrants; however, since the UK chose to leave and take control, these other countries are no longer eager to continue sharing the burden in this process.

Law:

Although the exact number of laws derived from the EU is difficult to estimate, the EU does not control all of the UK's regulations and many of the laws in place by the EU are standard laws the UK would independently choose to follow. Due to the nature of the EU and its single market, some laws and regulations must be in place for the EU to function as intended and to ensure uniformity of goods and services that pass freely to guarantee the same quality standards in all member states. The UK has sole jurisdiction of the UK courts and legislature for significant areas of its domestic law; however, "if the UK were to leave the EU [...], much of its business would remain subject to EU law in order for UK products and services to be accepted in other EU countries" (Davies). When living in a globalized world, with international trade and

production rising to increase efficiencies, certain rules must be in place throughout the market, which will most likely remain unchanged following Brexit.

Even though the UK has many domestic laws, a portion of its laws does come from the EU. One important factor to consider, however, is that member states are involved in a lot of the legislation process and “the national parliaments of EU countries are consulted on all Commission proposals, and any changes to the EU treaties require the agreement of every EU country” (“Adopting EU Law”). The EU has no jurisdiction to create uniform laws across all member states regarding the areas of culture, industry, education, healthcare, or tourism (Wessing).

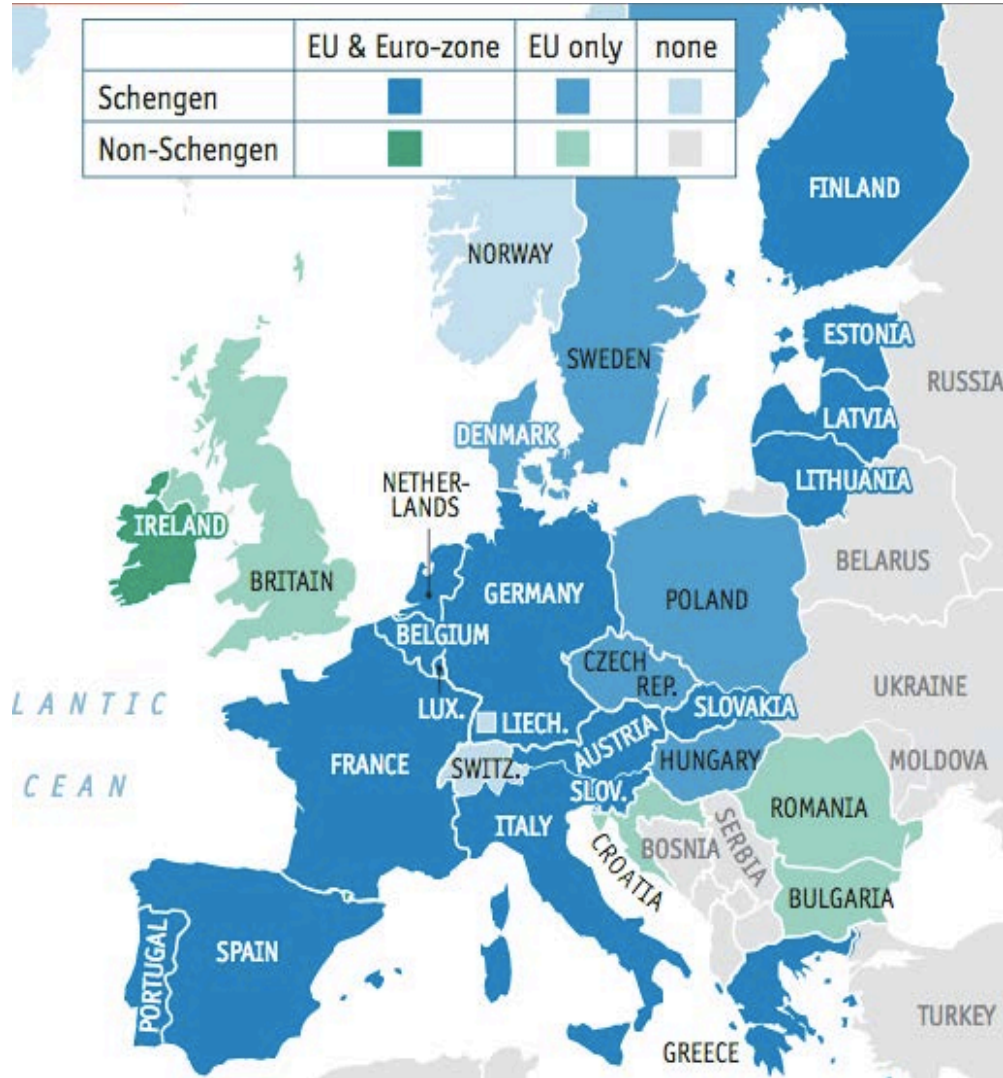
Currently, the EU has allowed the UK to take control of many policies, including areas of the Justice and Home Affairs (JHA), which aims to protect the fundamental rights of all EU members and allow free movement. The EU allows “any member state to halt a measure it believes could threaten its national legal system and ultimately, to opt out of it” (Archick). Even with these “safeguards, the UK and Ireland negotiated the right to choose those JHA policies they want to take part in and to opt out of all others,” (Archick) creating the legislation but ultimately allowing the member state’s government to decide which laws make sense for its nation. The UK has chosen to take opt-outs more than any other EU-member state, giving the UK control to shape or discard many policies the EU law suggests (Briggs).

Despite having free movement as far as immigration, one example of the UK taking control of matters the EU has suggested implement is the nation opting out of the Schengen Zone, which removes border crossing from all nations participating. The UK and Ireland chose to participate in some aspects of Schengen agreement, such as the Schengen Information System

(SIS), which allows police forces to share data across the Schengen Zone, but chose to keep control of its own borders and require travelers to go through passport checks (“Schengen”).

Figure 16: Color-coordinated representation of groupings of countries within Europe including the Schengen Zone, EU, and Eurozone.

Source: “Who's In, Who's Out.” The Economist. Web. 5 Jan. 2017.



Another example of the UK remaining in control of decisions that significantly impact its country is its decision to keep its own currency, the British Pound. The UK and Denmark both

chose not to participate in the Economic and Monetary Union, finalized in Protocol 25 of the Maastricht Treaty, allowing both countries to keep their own currency. The UK already has full sovereignty in its monetary policy without leaving the EU, which means they are less likely to suffer from economic issues felt across all member states, such as during the economic crisis of 2008. Recently, the EU implemented new precautionary legislation to protect the UK by ensuring “that the UK, and other non-Eurozone member states, will not be required to fund Eurozone bailouts” (Davies). Although there are advantages to participating in the Eurozone, the EU allows members to participate as little or as much as they want in extreme measures of globalization and does not force this upon all members. The UK has already opted out of many policies it is concerned may create unnecessary financial risk or a negative impact on the nation.

Crime:

If the UK exited the European Union, the European Arrest Warrant would no longer apply, hindering the serving of proper justice. Without the European Arrest Warrant being in effect, the UK would not be able to demand the extradition of violent criminals, who commit crimes in the UK and flee the country. EU countries were not obligated to accept the European Arrest Warrant, but the UK chose to participate in the EAW following its option to join in the Treaty of Lisbon. The UK government determined the EAW was a benefit to its country due to its collective cooperation in criminal enforcement fighting against the growing globalization of crime (Lythgoe). The EAW shortens time and costs in extradition, including removal of foreign criminals from the UK and return of criminals wanted for trial in the UK.

In the UK, extradition used to take one year on average before the European Arrest Warrant; however, now it typically takes less than two months on average. “In cases where a suspect agrees to surrender, the average extradition time is 16 days” (“Q&A”). Likewise,

without the EAW, it would be more difficult to remove foreign criminals hiding in the UK, creating a safety threat to the citizens of the nation. “Between 2010 and 2014 Britain surrendered 5,365 criminals to other EU countries, of whom over 95% were foreign nationals. Among those were 70 wanted on child sex offences, 100 for rape and 115 for murder, plus 497 on drug trafficking charges” (Lythgoe). Although there is risk that foreign countries could hold UK citizens in prisons without a fair trial under the EAW, discarding this policy poses a greater risk to the safety of innocent citizens remaining in the UK.

Economics/Finances

One of the main purposes of creating an economic union, such as the EU, is to improve efficiency and stimulate productivity for all nations involved. EU member nations can participate in a single economic market of goods with generous trade regulations, which reduces costs. UK citizens also have the ability to work in any EU country, maximizing opportunities among these states for both employers and workers looking for a job.

Trade:

One significant benefit of staying in the European Union would be trading within the European single market, the largest international single market in the world. Participating in this single market creates greater efficiency in doing business, ultimately reducing costs. The European single market leads to “greater competition in services, which is good for business and consumers, removal of trade barriers,” such as tariffs and quotas, and the “elimination of anti-competitive practices, such as monopolies and cartels” (“Benefits of Trading”). The EU has implemented actions to ease trade among its member states including creating uniform quality

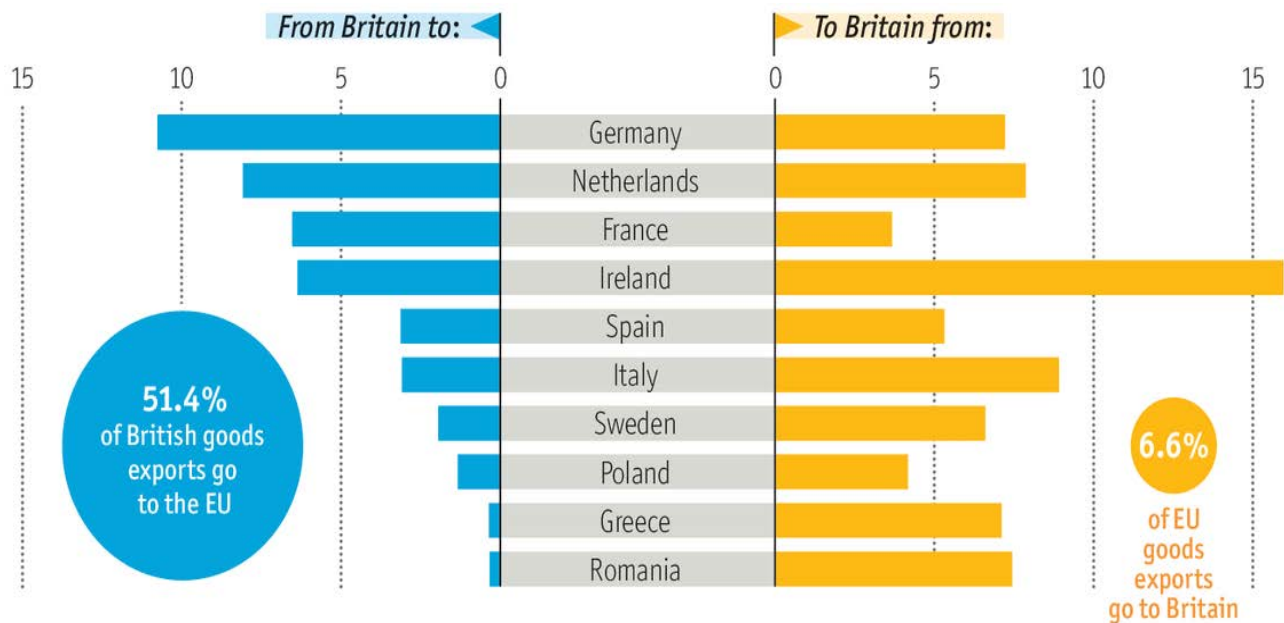
and safety standards, allowing free movement between all member states, and reducing paperwork, reducing time and costs needed in completing a trade with another EU nation.

In economics, David Ricardo's theory of comparative advantage argues that a country will be better off trading for a product it can get cheaper from another nation than from producing that product on its own. Ricardo observed that each nation would specialize in production of the good it is comparatively better at producing and therefore has a comparatively lower cost than another country who produces this good less efficiently. The Ricardian theory of comparative advantage promotes the idea that countries will always benefit from free trade, supporting the Stay campaign's fear that exiting the EU and losing barrier free access to the largest international single market in the world will be harmful to the UK economy.

Currently the UK trades with the EU more than any other market, with exports going to other EU countries 45% of the time. Following Brexit, trade barriers are only bound to increase, which based on Ricardo's theory of comparative advantage, is less efficient than the free trade the UK experiences now. Although the EU has free trade among member states, the EU imposes high tariffs on its goods, in turn creating higher prices on imports outside of the EU as well. Those in favor of Brexit argue that leaving the EU benefits the UK in that it would no longer have the high EU price on imported goods from non-EU countries. In addition, the UK could trade more at lower costs with non-EU countries, such as the US. However, this idea that receiving lower import prices from non-EU countries would create gains in trade is not considering that by leaving the EU the UK would then have to pay a heavy tariff on nearly half of its exports sold to the European Union.

Figure 17: Exports of goods shown as a percentage of national totals between the UK and the EU in 2014.

Source: “They Need Each Other.” The Economist. Web. 5 Jan. 2017.



Since the UK is choosing to leave the EU on its own will, the EU may view this decision as being noncompliant and may create negative relations between the two markets. Unless the UK is able to establish a trade agreement with the EU before Brexit takes effect, the UK would be subject to the World Trade Organization trade regulations, meaning the UK would have to pay the EU’s Common Customs Tariff. These taxes would therefore increase the “price of UK exports, rendering them instantly less competitive in local markets and damaging British-based exporting firms” (Chu, “Brexit”). If the UK is unable to sign a trade agreement with the EU before Brexit takes effect in March 2019, it would not only hurt trading with the EU, but the UK would also lose “more than 50 free trade [...] deals the EU has concluded with other countries including significant markets such as Korea, Switzerland and Mexico” (Chu, “Brexit”). Although the main benefit that comes from participating in this single market is due to

comparative advantage and the gained efficiency from removing trade barriers with other EU countries, the benefits are more complex than they may appear.

If the UK ends its trade agreement with the EU and begins trading under WTO rules, it will face high taxes on exports, lose money and time in transportation without free movement, and break agreements with not only the 27 other member states, but also with countries which have made deals with the EU but not the UK. “Oxford Economics estimated the long-term cost to the UK economy of trading under WTO terms of between 1.5 and 3.9 percent of GDP relative to otherwise by 2030” and “that overall UK exports would be 8.8 percent lower than otherwise by this date”(Chu, “Brexit”). Applying basic economic theory, free trade will always benefit a country through specialization and comparative advantage, so removing aspects of free trade by leaving the largest international single market would likely decrease the UK’s trade gains.

Jobs:

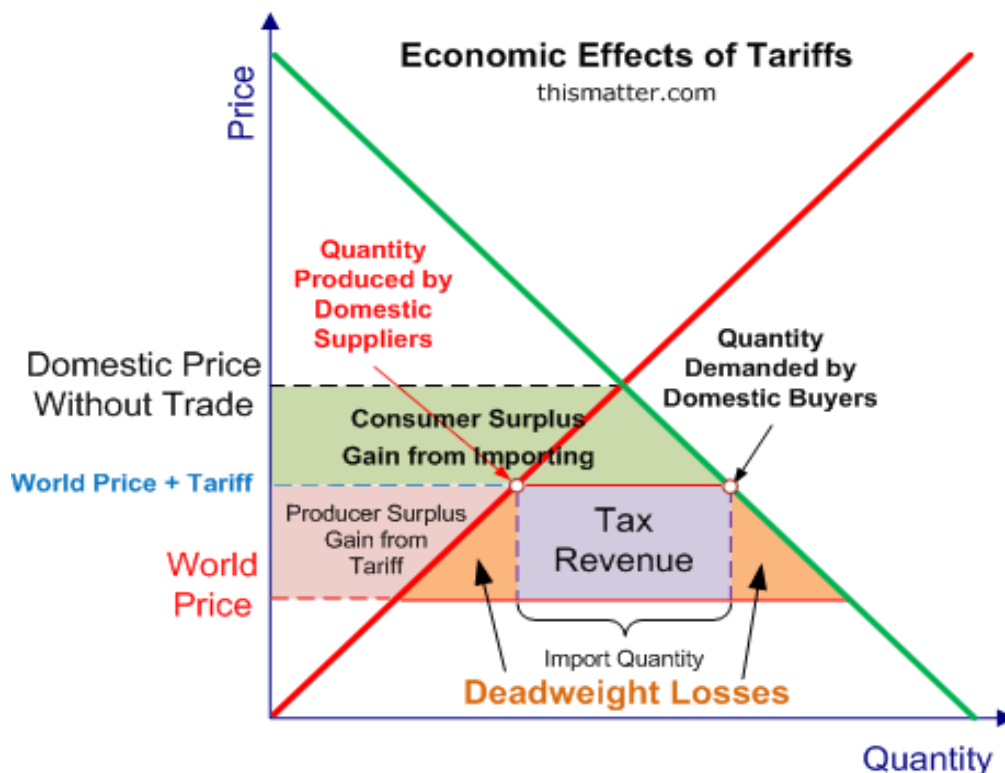
The Stay campaign argues that by leaving the EU, thousands of jobs will be lost in the UK. With roughly 3 million jobs currently linked to the EU, the possible consequences from leaving the EU could be severe. At this time, it is difficult to predict how ending its membership would affect all of these jobs, but if even a portion of these 3 million jobs were lost, unemployment would rise. Economist Adrian Favell said, “limiting freedom of movement would deter the ‘brightest and the best’ of the continent from coming to Britain and reduce the pool of candidates employers can choose from,” (Frith) only hindering the advancement of the UK’s economy. Although the Leave campaign argues that these immigrants are stealing jobs from UK born citizens, it is important to also remember that “there are 5.4 million non-UK born workers in the UK,” representing “17 percent of the total” (Chu, “What do”) job force. This

large percentage of immigrants have become an intricate part of the UK economy and without these workers, the labor force would decrease by 17%, slowing economic growth.

As mentioned before, if the UK is unable to secure a trade deal with the EU, similar to the current agreement, the UK would have to follow WTO regulations regarding their trade. Leaving the EU's single market and having to pay high tariffs to export goods into all EU member states would hurt UK companies that produce and export these goods. As seen in Figure 18, when the price rises due to the imposed tariff, firms will be less competitive internationally and the quantity demanded for these UK goods will decrease, hurting a company's profits and most likely leading employers to cut jobs in these industries.

Figure 18: Economic effect of tariffs.

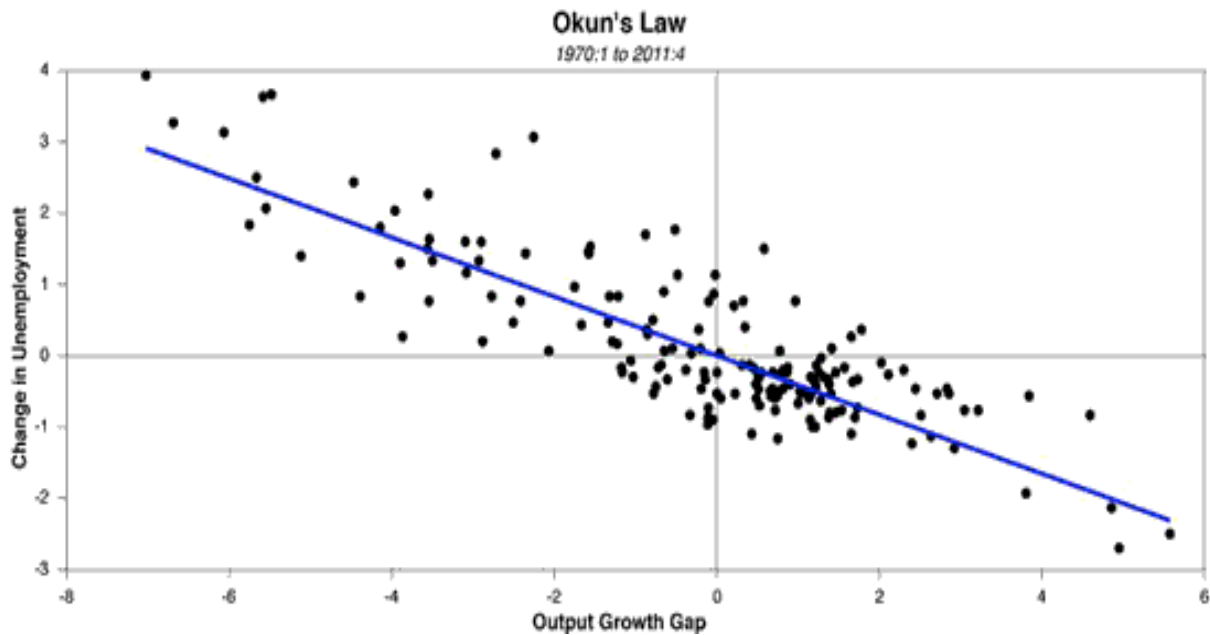
Source: "Economic Effects of Tariffs." This Matter. Web. 11 Jan. 2017.



Okun's law, which evaluates a statistical relationship between a country's output and growth of the economy with the unemployment rate, aims to show that there is a positive relationship between employment and output. The law argues that an increase in the unemployment rate will result in negative growth in real GDP.

Figure 19: Visual depiction of the relationship between country's output and unemployment rate, or Okun's Law.

Source: Foxman, Simone. "Okun's Law." Business Insider. Web. 6 Jan. 2017.



Predictions on Brexit follow the law's direct relationship between the two variables, as the Treasury report predicts "a short term Brexit cost of 3.6% [GDP] and a 520K rise in unemployment" (Armstrong). This law follows simple economic principles because if UK companies raise prices to offset paying high tariffs and lost business, the amount of labor needed to produce the lowered amount of output will decline. Due to the high levels of uncertainty in

the economy created by Brexit, there is a chance the pound will drop sharply and cause a significant rise in inflation, due to the higher price on imports. When inflation rises in a country, prices increase for consumers and unless employers raise wages to offset this rise in inflation, consumers will suffer. During this time of economic uncertainty, it is unlikely that companies will increase wages; however, employers may cut back on jobs to ensure they can afford to pay employees the same amount or slightly increase wages.

Another risk of Brexit, is that companies, such as investment banks, will transfer from the UK to a country that is more predictable and that has more access to the EU, following Brexit. At this time of high uncertainty, new companies considering expanding abroad are less likely to risk investing in the UK economy and may want to find a country with free movement within the EU.

International Influence

One risk of exiting from the EU will be that the UK will be leaving a network of nations making up one of the largest and most influential global powers. Those who want to stay in the EU fear that Brexit will mean giving up its influence in Europe and the rest of the world. Prime Minister Cameron stated that being a member of the EU ““amplifies our power, like our membership of the U.N. or of NATO. It helps us achieve the things we want, whether it is fighting Ebola in Africa, tackling climate change, taking on the people smugglers. That’s not just our view as well; it’s the view of our friends and allies, too”” (Heltz). Leaders in powerful countries, such the United States and China, have made it clear that they prefer if the UK stays a member of the EU, especially regarding trading advantages, as the world favors increased globalization. British allies might now view the UK as being less useful, which could harm the strong ties that the British are accustomed to sharing. As an influential member of the EU, the

UK is able to help shape the decisions of the EU and therefore influence Europe as a whole.

Although the UK is extremely powerful on a global scale, the U.K is very small nation and may struggle to compete as it did with the support from the other EU countries.

Defense:

As the world globalizes, certain threats are common among all European countries, such as ISIS or Russia. Since all European countries within the EU share a similar risk as a target for terror groups and non-allied aggressor countries, it would be more effective to try to combat these threats by working as a joint military force, rather than individually. Although the UK has a powerful military, its strength alone cannot compare to that of 28 combined countries. Leaving the EU could also create negative relations among other EU nations who may be less likely to support the UK in a war now that they chose to deal with their problems independently. Other allies, such as the US, have expressed concern regarding their relationship with the new independent UK. Because Brexit is not a decision the US supports, it is unlikely that the US will be willing to give additional assistance to the UK to make up for lost help from the EU.

The European Union is currently considering increasing the level of globalization among member states and the possibility of creating one joint EU Army. The EU contends “the sheer demographic and economic weight of the 28-nation bloc makes it a major power. It is the world’s biggest trader with the world’s second currency, the euro. The trend towards joint foreign policy decisions strengthens its arm” (Sengupta, “Brexit”). This idea is quite controversial and an idea many in the UK feel is overstepping the power of the EU. Although the EU Army is a common argument to support why the UK should leave the EU, either way the UK could veto the common defense. Unlike the popular misconception, this veto, mentioned in

Article 42 of the Lisbon Treaty, would prevent the UK from being forced to join an EU Army (“Reality Check”). It is also important to remember that forming a joint army is something that the EU will move forward with regardless if the UK is a member. Although most of the Stay campaign disapproves of joining the superpower army, the UK has a greater “opportunity to play a key role in shaping EU foreign and defence policy by staying inside” (Sengupta, “Brexit”). Due to the close proximity of the UK to other EU countries and their shared history, the EU’s foreign defense decisions will affect the UK, whether it remains a member or not.

With the rise of international terrorism and the threat the UK faces today, having strength in numbers worldwide to defend against terror that sees no nation’s borders is a common argument for staying in the EU. Former British Prime Minister Cameron argued, “the dangerous international situation facing Britain, today, means that the closest possible cooperation with our European neighbors isn’t an optional extra – it is essential. We need to stand united” (Heltz). Because of the advancement in technology and transportation has eased the spread of global terror, now is arguably a time to strengthen cooperation between foreign nations, rather than diminish these relationships.

Chapter Four

Conclusion: The Future of Brexit

Ultimately, the long-term effect Brexit will have on the economy has to do with the EU's relationship with the UK at the time when Brexit officially begins, which will be in March 2019, at the earliest. For example, if the EU and UK make a trade agreement and allow trade without imposing tariffs, there will be little long-term effect on the UK economy. Trade and the price of imports and exports lie at the root of possible rising prices of goods, decreased demand, lowered output, and rising unemployment. Given the history between the UK and the EU, along with the mutually beneficial gains from free trade for both the UK and the EU, it is extremely likely that the two will sign an agreement as soon as possible.

Another risk of Brexit is following the economic concept of Pareto optimality, where wealth and resource allocation is equally distributed among all parties involved. This concept relates to the fact that the UK leaving the EU may inspire other member states to follow the UK's example. Once the UK leaves the EU, powerful EU countries, like France and Germany, are at risk of also leaving the EU, which would deteriorate the underlying structure of the EU and make the EU irrelevant in the scope of international politics.

Agreements with the EU cannot minimize the consequence of uncertainty that Brexit creates. Many current investors, as well as future investors, will be scared away from conducting business in the UK. The nation's economy will most likely lose a portion of these companies that will set up headquarters in nearby EU countries with more stability and connections to the single market, such as France or Germany. This uncertainty will create more risk aversion in investors, as well as more conservative spending by companies, such as for wage rates, having a negative impact on economic growth for the EU.

If wage growth reaches stagnation, in addition to the rising economic uncertainty, consumers will become more conservative with spending as well. Consumer spending will not be as severe, since consumers will still need a number of goods for daily life; however, until people feel more confident about their future financial situation, they will delay spending for unnecessary or luxury goods. Although high levels of uncertainty exist right now, that could diminish in the near future, following a trade negotiation with the EU. The harsh immediate effects of Brexit that the UK fears will most likely fade over time and not leave lasting negative effects on the economy.

However, if the EU refuses to make a trade agreement or it does not have one by March 2019, thus causing the UK to lose access to the single market, the economic effects felt in the UK will be more severe. Without a trade agreement, the chances of economic uncertainty lingering longer in the UK are much higher. If uncertainty levels stay high for an extended period with investors and consumers delaying spending, this could “lead to permanent decline in inward investment and deterioration in export conditions. In this case, the fall in output may not just be temporary, but lead to permanently lower rates of economic growth” (Pettinger). Because nearly half of the UK’s exports go to countries in the EU, not having an agreement with these countries and having to pay high tariffs will raise the price of goods, which in turn will lower the quantity demanded of these goods and eventually raise unemployment levels. Initially, the economy will enter a recession and unemployment will gradually rise.

Another factor that could influence Brexit’s effect on the economy is whether the UK remains a part of the European Economic Area. If the UK remains in the EEA then there likely will be little change to areas such as trade and immigration, since the EU still will permit free movement among its member states. Trade and jobs will remain quite similar to before Brexit,

since the UK would still allow the same number of EU immigrant workers to enter Britain to help support the economy. If the UK does not remain in the EEA, the British government will continue to tighten regulations on immigration gradually over the next few decades, lowering the number of workers in the UK labor market and slowing growth of the UK economy over time.

A community, such as the EU, can either act in accordance with Pareto optimality, where all members gain equally from the partnership, or alternatively it can act where the majority rules, creating winners and losers in the community. Pareto efficiency ensures that by holding laws uniformly across all member states, advantages will not be given to some members while creating disadvantages for other members. A community achieving Pareto optimality is the most efficient and uses teamwork to propel the society forward. In order to be Pareto optimal, all members must receive equal benefit and even if one member state is receiving as little as \$1 less than the other states, it is no longer efficient.

When the EU initially formed, the goal of acting under Pareto optimality was a driving force, so that “countries [did] not [fight] for a bigger piece of the pie at the expense of others. Instead, they work together voluntarily to ensure that the pie keeps growing, and that everyone gets a decent slice” (Sinn). Recently, countries, like the UK, have been dissatisfied with the EU’s structure for conforming to a community that redistributes resources among the members, creating winners and losers, with the UK coming out on the bottom in the current situation. A union, such as this, is quite unstable because some countries’ inevitable unhappiness will lead them to choose to leave the community, reducing the union’s size and power, rather than creating prosperity for all member nations. In this situation, if the community wants to keep all members, the community must take drastic measures to punish the losers, in order to make leaving even worse. For example, if countries, like the UK, choose to leave and the EU does not punish the

UK for its decision, “the EU is sending the message that it is a union in which some members are bound to lose” (Sinn) and losers may be better off opting out of the deal. If the EU does not choose to take the UK’s referendum as a warning sign and transform its community into a union that adheres to Pareto optimality, there is a high risk that the EU will continue to make some members happy and will likely see other members wanting to exit the union.

If the UK can successfully exit the EU with minimal consequences, it is likely other EU members will follow suit, which would create catastrophic effects for the union and the dynamics of Europe. France is currently at the forefront of exiting discussions, as Marine Le Pen, one of the possible next Presidents of France, strongly advocates for Frexit and openly supports the Leave campaign. Even if Brexit alone has little long-term effects, this first referendum could be enough to initiate other nations to leave as well. Because of the greater intertwining between the French and the EU, if the French were to move forward with leaving the EU, the effects would be far more severe than Brexit. France, for one, is part of the Eurozone, and its constitution states it is a member of the European Union. One of the more-extreme presidential candidates, François Asselineau, intends not only to leave the EU, but also to leave NATO and abandon the euro.

The supporters of Frexit argue that it is necessary to leave the Eurozone before countries, such as Italy, default on debt and bring France down with their financial instability. “On the other hand, leaving the economic and monetary union would cause interest rates to skyrocket. In France, where national debt stands at 100% of GDP, or close to €2.2 trillion, this would be a serious blow. In the event of default, France would no longer be able to borrow on the financial markets” (Robert). With the rise in interest rates and capital flowing out of France caused by Frexit and more specifically, the exit from the Eurozone, France could be at risk for defaulting.

Due to the extreme interconnectivity, it would be more difficult for the French to move forward with a Frexit; however, if successful, France would need to make a constitutional change and reconfigure the scope of the EU.

Other nations, such as the Netherlands and Hungary have also discussed the possibility of leaving the EU. If the UK and France, two of the most powerful member states, left the EU, along with other mid-level member states, Germany would have very little reason to stay in the EU. Currently, the EU uses the Germany's powerful economy to support far weaker states, with Germany gaining little in return. Failing to give all EU members equal benefits and maintain Pareto optimality could destroy the EU's integrity, crumbling from the inside out. Although the UK leaving the EU will likely have small effects on the world economy, the ripple effect this referendum could ignite may have catastrophic effects to the European economy, impacting economies around the world.

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