

Public Hearing

Deutscher Bundestag

Committee on the Affairs of the European Union

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12:30-15:30

In the Marie-Elisabeth Lüders Building

Room 3.101

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Brexit: Status Questions and Economic Aspects

1. Nature of the European Union

To leave the European Union is a dramatic decision. In the case of the United Kingdom it is a serious political mistake as discussed in #2. Though unwise, the decision was made through a democratic process consistent with the political and legal framework of the European Union. The European Union since its inception as the European Coal and Steel Community in 1951 has been a voluntary association of countries mediated through national governments. The various treaties that serve as the EU constitution make it clear that leaving the Union is also voluntary and a choice open to citizens and governments of the members.

2. By obtaining an opt-out from joining the euro zone and not signing the Treaty on Coordination Stability and Governance, British governments are not in practice subject to the economic rules in EU Treaties. As a result, the relevant EU level regulations affecting British citizens are those protecting the environment, employee rights and civil and human rights. The loss of EU protection in these areas will in the long run be the most serious consequence of leaving the Union.

3. The EU single market allows for free movement of capital, goods, services and people throughout the Union. Each of these was included as part of the single market because each was viewed as a benefit to the citizens of member countries. For a government to abandon any of these benefits results in a loss to that country. It is inconsistent for European leaders to object to or sanction the British government for abandoning free movement of EU peoples. If the British government limits free movement that in itself causes an economic and social loss for the United Kingdom. If European leaders believe that free movement is a policy good for everyone, it is a cause for regret not anger that the British government abandons it.

4. The economic cost of Brexit to the United Kingdom is unlikely to be large: a) since the year 2000 British trade with non-EU countries has grown faster than with EU countries, and the UK trade balance is more favourable with non-EU partners; 2) if the British government maintains EU production standards it will retain access to the EU market, whose trade weighted tariff rate is 2.3%; and 3) since the early 2000s net capital flows to the United Kingdom have declined and those from the EU declined more than those from non-EU countries.

5. Leaving the European Union may result in the decline in importance of the UK financial sector (“the City”). Many economists in Britain judge that as a benefit. The disproportionate size of the financial sector has contributed to the decline of UK manufacturing through persistent overvaluation of the pound sterling. The decline in the exchange rate after the June 2016 referendum should prove a benefit to the UK economy. The globalized character of the City has resulted in it having little interest in making loans for productive investment.

6. The most important negative consequences of Brexit are political not economic. UK residents will lose EU regulations of the environment, employee rights, and civil and human rights. While the UK government could replace the EU regulations with equally strong or stronger domestic laws, this is very unlikely under the present government. The goals of the major political forces supporting Brexit came from UK businesses seeking to escape EU regulation.

7. Of the negative political consequences the most serious of all would be Scottish independence. Scottish voters supported to remain in the European Union by 62%. A referendum on independence will be held in 2018. Pro-EU sentiment in Scotland may result in this second independence referendum passing.

8. A just and fair settlement for Britain leaving the Union would be based on the following.

a) The goal of European integration is to maintain peace with democracy in Europe. The single market and the rules governing the single market are a means to that end. This goal involves more than the absence of conflict. It means harmony, trust and cooperation. The process and outcome of Britain leaving membership in the European Union should conform to the fundamental goal of the European Union, maintaining peace with democracy.

b) European Union treaties and practice allow for different forms of association, including among current members as suggested in discussions of “two-speed” or “two-track” Europe. European leaders should treat Brexit as an opportunity for a more inclusive Europe. New arrangements could include associate countries that share EU common values and adopt some but not all of the aspects of the single market, “partial adoption”. This approach is equivalent to the existing accession process with flexible timing and each step treated as a category of associate status. The United Kingdom leaving the European Union should be treated as a form of reverse accession rather than exit.

c) Some EU leaders have stated that access to any benefits of the single market requires accepting all four principles of free movement, goods, capital and people plus equal access to provision of services. There is no obvious justification for this requirement. The four were adopted at different times by the members of Union. This indicates that each is viewed as beneficial. If each is beneficial in itself, having associates that adopt free movement of goods and capital but not the other two should be beneficial to both the associates and full members. This flexibility can result in a government initially adopting some of the four and later the others.

d) The “partial adoption” approach allows for different economic and political circumstances across countries, as long as those differences do not conflict with the fundamental goal of European peace with democracy.

Final comments

Membership in the Union is a privilege bringing benefits to members, entered into voluntarily by citizens in a process mediated through their governments. The more countries whose governments associate with the Union, the more stable will be European peace and democracy. Requiring strict adherence to all aspects of the single market creates an exclusionary Europe with a sharp distinction between “inside” and “outside”. A Brexit settlement allowing partial adoption provides the route to an inclusive Europe. Degrees of integration would facilitate a wider community of peace and cooperation among countries and governments.