Brexit, Britain and Europe

Michael Roberts

Abstract: Britain in Europe has always been an exception. Underlying the decision is the historically unsettled split in the British ruling class about what direction to take British capital in the post-war period. Support for staying in the EU faded away both prior to the Great Recession and particularly in the euro crisis period. In Britain the euro-sceptics gained support and clamoured for leaving the EU. The scene was thus set for the Brexit debacle. Whether Britain is in or out of the European Union will make little difference over the long term. The elephant in the room is a new economic slump which would be way more damaging to the UK economy than Brexit. Brexit will just be an extra burden for British capital to face. On balance, leaving the EU is a negative for British capital, even if the hit is relatively small compared to the hit that working-class households have suffered from regular and recurring slumps in capitalist production, especially when followed by depressionary stagnation, as in the last ten years.

As I write, the current British prime minister Boris Johnson is attempting to force through Britain's exit from the European Union, despite parliament passing a law forbidding any exit without an agreed deal with the EU. In the May EU Assembly elections that Britain was reluctantly forced to participate in, the single issue so-called 'Brexit' party took the most seats. The results revealed a total split among British voters between those who want to leave even without an agreement with the EU and those who want to stay in the EU.

Indeed, nothing has changed in three tortuous years since the narrow decision in the UK referendum in 2016 to leave the European Union after 50 years. That referendum vote threw the British political elite into total disarray. The issue has cut across class-based politics and classes; whether it is the top 1% (as measured by wealth and income) of Britons; or the 'middle-class' professionals; or the working-class; the old and young; city or small town; or north and south. All are split about whether to stay or leave.

The issue has caused paralysis in government policy, in corporate investment decisions; in parliamentary votes and even in individual spending on big ticket items like housing and cars. The British pound has plummeted by 20% against other major currencies; and each week another corporation announces that it will move its headquarters or production facilities out of the country; while British companies like British Steel go bust.

British exceptionalism

Britain in Europe has always been an exception. Support for the European Union among the citizens of the member states remains very high, indeed it is at its highest point in 35 years, at around 60-65% on average. As you would expect, EU-scepticism in Britain was the highest of all member states at the time of the UK referendum of 2016. And in 2019, anti-EU sentiment in the UK was 50% higher than the next most skeptical member state, Czech.[1]

Scepticism about the European 'project' has grown since the Great Recession of 2008-9 and the ensuing policies of austerity in the EU. But even so, not one of the EU's member states has delivered a public opinion poll with a majority wanting the country to leave – except the UK. The referendum of the 2016 confirmed that, albeit narrowly.

Underlying the decision is the historically unsettled split in the British ruling class about what direction to take British capital in the post-war period. After the debacle of the so-called Suez crisis of 1956 when France and the UK learnt that they could no longer dictate colonial control over Egypt and the Middle East on their own, and must hand over that role to American imperialism, the British ruling class was in a dilemma. Should they become just a junior partner of American hegemony and stay out of the European integration process being promoted by France and Germany from the late 1950s; or should they opt for becoming a senior partner in Franco-German capital's drive to build an imperialist bloc to rival the US and the Soviet Union?

The answer was at first to reject offers to join the European integration process and stay aloof. But economics eventually dominates politics and when it became clear that France and Germany were leaping forward economically with the Common Market, the European Economic Community and eventually the Treaty of Rome, the majority of the strategists of British capital opted for Europe.

But a significant minority remained sceptical and even hostile to the European project. Also, there was strong sentiment in the British labour movement that the EU was a 'capitalist club' with pro-market, anti-labour principles and must be avoided. After the Conservative government under Ted Heath had taken the UK into the European Economic Community in 1973, when the Labour party got into office in 1974, the Labour left–wing pushed for a referendum, but overwhelmingly lost the vote. The die was now cast for the next 50 years.

Throughout those years, Britain had an uneasy relationship with the Franco-German EU bloc. Indeed, it insisted, under Thatcher, on obtaining a special deal on contributions to the budget and on other matters to do with EU regulations. At the same time, Britain was a driving force for more de-regulation of industry and services and other neoliberal measures (i.e. reductions in agricultural subsidies) within the EU, taking it away from its supposed 'social market' principles.

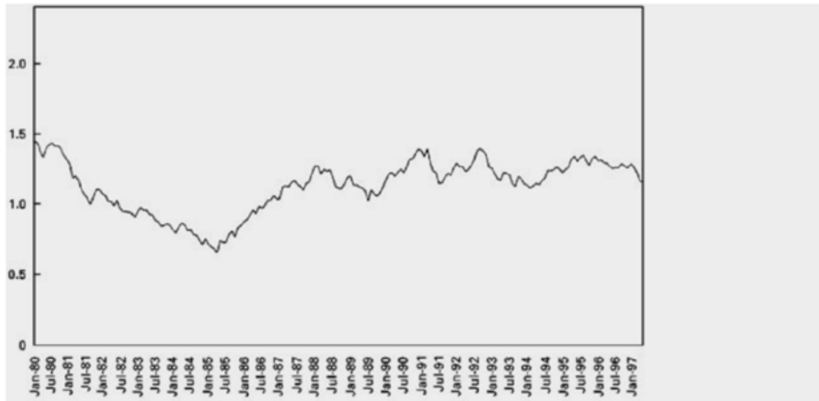
During the 1980s and especially in the 1990s, UK economic growth more than matched the major EU economies. So the UK refused to join

1 https://www.eui.eu/Research/Library/ResearchGuides/Economics/Statistics/DataPortal/Eurobarometer

up fully for the Maastricht treaty and its move towards the establishment of the euro, as it meant losing control of monetary policy and the national currency – in effect placing British capital in a permanent marriage to the Franco-German bloc.

But the City of London and the UK's all-powerful financial services industry was strongly in favour of the UK joining the single currency to enable the smooth movement of capital flows and to enshrine the City's dominance in FX trading and other financial business. So in the early 1990s, the UK joined the EU's Exchange Rate Mechanism (ERM) that kept national currencies in a strict band with the European Currency Unit (ECU), the precursor of the euro. The City put the pressure on the then prime minister Thatcher to do this. But the irony was that the UK economy was too weak to sustain a strong pound as Franco-German economies drove up the ECU's value against the dollar. Eventually, 'Black Wednesday' occurred in September 1992, when John Major's Conservative government was forced to withdraw from the ERM.

The US$/ECU rate – the ECU reached a high against the dollar in 1992, provoking the crisis for sterling.



This set the stage for a return of the hidden split in the Conservative party and British capital over whether to move towards further integration with the EU or to distance itself. The ERM debacle led to an attempt to remove the then Tory PM John Major by euro-sceptic MPs and later to Major's defeat in the 1997 election that put the pro-EU Blair-Brown Labour Party in office for 13 years.

That only increased the schism within the Conservatives. There was now a clear division between those leaders who represented the interests of big business and the City of London wanting 'free trade' and a big role in the EU and rank and file Conservatives who represented small businesses and the narrow nationalist and racist elements in small provincial towns. They wanted no truck with 'Europe' and harkened back to 'good old days' of a white imperial Britain ploughing its own furrow – something, of course, that had disappeared even before the UK joined the EU. This division was heightened by the bulk of the 'popular' press, whose moguls were either Australian-Americans like Rupert Murdoch, or aristocratic 'empire believers' like the Rothermeres or the Barclay brothers.

The return of the Conservatives to power in 2010 after the Great Recession did not end this schism. The euro debt crisis of 2012 exposed the fault-lines in the great EU and euro project. Capitalism is a combined but uneven process of development. It is combined in the sense of extending the division of labour and economies of scale, and involving the law of value in all sectors, as in "globalization." But that expansion is uneven and unequal by its very mode, as the stronger seek to gain market share over the weaker. The euro project aimed at integrating all European capitalist economies into one unit in order to compete with the United States and Asia in world capitalism with a single market and a rival currency. But one policy on inflation, one short-term interest rate, and one currency for all members was not enough to overcome the centrifugal forces of uneven capitalist development, especially when growth for all ceases and there is a slump, as in 2008-9 and the subsequent euro debt crisis of 2012-14.

The professed aim from the beginning of the euro in 1999 was that the weaker economies would converge with the stronger in GDP per capita, and in terms of fiscal and external imbalances. But instead, the opposite happened. The global slump of 2008-9 dramatically increased the divergent forces within the Eurozone, threatening to break it apart. The fragmentation of capital flows between the strong and weak Eurozone states exploded. The capitalist sectors of the richer economies like Germany stopped lending directly to the weaker capitalist sectors in Greece, Slovenia, and elsewhere.[2]

The euro area twin crises – associated with the Great Recession and the euro area sovereign debt crisis – left a legacy of unprecedented high levels of public debts both at the national level and in the aggregate. Projected public debt for the euro area as a whole for 2019 is 85.8% of GDP, decreasing from the all-time peak of 94.4% in 2014 but still around 20 percentage points above the 2007 pre-crisis level. This high and persistent public debt has been associated with an unprecedented effort of fiscal consolidation which involved a rapid decrease in public deficits starting in mid-2009.[3]

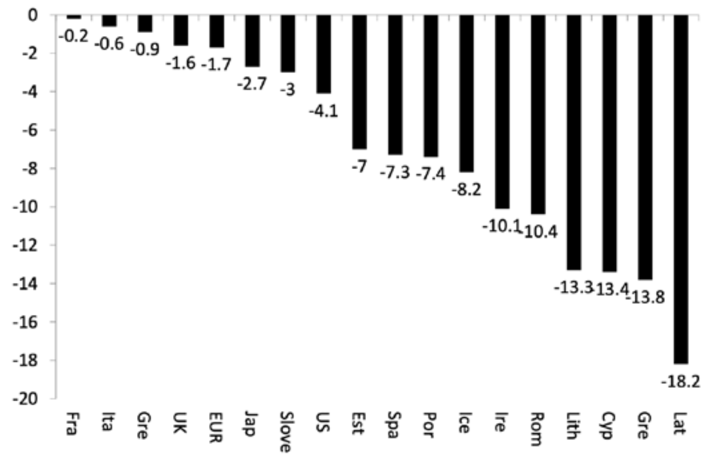
The ECB, the EU Commission, and the governments of the Eurozone proclaimed that austerity was the only way that Europe could escape from the Great Recession. Austerity in public spending would force convergence too. But the real aim of austerity was to achieve a sharp fall

2 Roberts M, (2018)

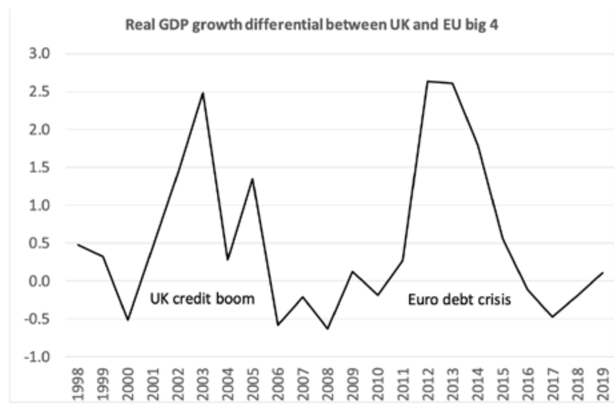
3 Alberto Caruso, Lucrezia Reichlin, Giovanni Ricco, The financial origin of the euro area fiscal wound https://voxeu.org/article/financial-origin-euro-area-fiscal-wound

in real wages and cuts in corporate taxes, thus raising the profitability of capital. And every advanced capitalist economy has managed to reduce labor's share of the new value created since 2009. Labour has been paying for this crisis everywhere.

Reduction in labour's share of new value added (%), 2009–15. Source: AMECO, author's calculations.



Since the introduction of the euro in 1999, the UK economy generally performed better than the EU average, at least in real GDP growth. Between 1999 up to the global financial crash and Great Recession in 2008, the EU big four excluding Britain (Germany, France, Spain and Italy) grew at an annual average of 2.4%, while the UK averaged 2.9% a year. Since the Great Recession, the EU-4 has grown only 0.6% a year, while the UK achieved 1.1%. Generally, the growth differential has been in the UK's favour, particularly during the euro debt crisis of 2012-14. However, in the Great Recession, the UK suffered more than the EU-4 and it is an irony that when the UK referendum on the EU took place in 2016, the growth advantage for Britain had disappeared.



Source: IMF, author's calculations

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But there is no doubt that support for staying in the EU and even considering joining the single currency zone faded away both prior to the Great Recession and particularly in the euro crisis period. In Britain the euro-sceptics gained support and clamoured for leaving the EU. The argument was that Europe was an economic ‘basket case’ with heavy debts and high unemployment. Indeed, EU immigrants were flooding into Britain looking for work, particularly those from Eastern Europe, countries which were now in the EU after the EU’s expansion. Support for the anti-immigrant, anti-EU UKIP increased and UKIP won the lion’s share of the vote in the 2014 EU elections.

The scene was thus set for the Brexit debacle. The Conservative PM David Cameron, supposedly the representative of big business and the City, was worried. The Conservatives knew that they could lose a general election to Labour (because some of their votes would go to UKIP) unless they agreed to call a referendum on EU membership. Their manifesto promise sufficiently weakened the vote for UKIP in the 2014 election that Cameron narrowly won. By agreeing to a referendum, Cameron managed to reduce UKIP’s representation to just one seat in parliament.

But this political tactic backfired in the ensuing EU referendum itself in 2016. The referendum delivered a 52-48 victory for the leavers. Cameron immediately resigned and scuttled away to leave the new leader, the ‘remainer’ Theresa May, holding the poisoned chalice of having to conduct fraught and tortuous negotiations with the EU, with her party and country split down the middle.

In the referendum it seems that just a sufficient numbers of voters believed the arguments of the pro-Brexit Tories and UKIP that what was wrong with their lives was ‘too much immigration’ and ‘too much regulation’ by the EU (although Britain is already the most deregulated economy in the OECD). Many voters did not swallow the immigration and regulation arguments; but these were mainly the young; and those who lived in multi-ethnic areas like London and Manchester.

Those who voted to leave were older, did little travel abroad, lived in small towns and cities mainly in the north or in Wales, far away from City of London and from the sight of any ‘immigrants’, but who had suffered the most from low paid jobs, public sector cuts, run-down housing and high streets and general neglect as a result of the austerity imposed by both Labour and Conservative governments after the Great Recession.[4]

So the working class vote was split; the young, trade unionists, educated and city dwellers voted remain; while the older, less educated and those outside unions in smaller towns voted leave. The vast bulk of small business-people, the rich rural dwellers and farmers voted to leave

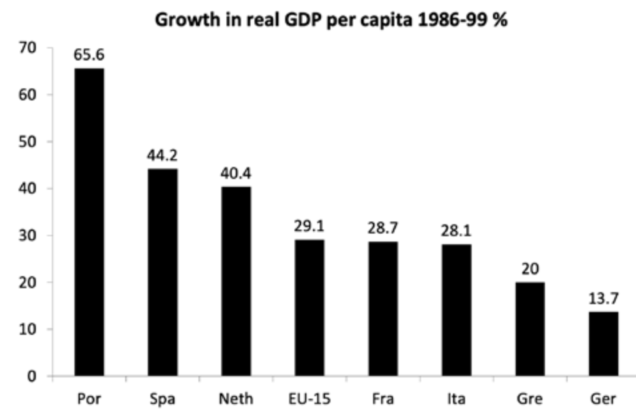
4 Goodwin and Heath, Joseph Rowntree Foundation, July 2016, https://www.jrf.org.uk/report/brexit-vote-explained-poverty-low-skills-and-lack-opportunities?gclid=Cj0KCQjwiILsBRCGARIsAHKQWLNGaoI2sOqKbqMG5akOutvkDPE7qDNzaz5icvK9EK0CDyHpKnlkikoaAv4kEALw_wcB

on anti-immigrant and ‘pro-empire’ grounds. Their vote was enough to tip the split working-class vote into a majority for leave.

May failed to deliver an agreement with the EU on future relations that was acceptable to the bulk of her own Conservative party or the opposition. In the end she was forced from office by hard-line Brexiters who appointed Boris Johnson, Britain’s Donald Trump, to drive through a ‘no-deal Brexit’. Most likely a new election will ensue to decide the issue by the end of this year.

Britain and Europe after Brexit

When it began, the European Union did show a degree of convergence between the rich northern core economies and the poor southern periphery. Common trade rules and the free movement of labour and capital between countries in the EU led to some ‘convergence’ on productivity levels. The move to a common market, customs union and eventually the political and economic structures of the EU has been a relative success. The EU-12/15 from the 1980s to 1999 managed to achieve a degree of harmonisation and convergence with the weaker capitalist economies growing faster than the stronger (graph below shows growth per capita 1986-99).



Source: OECD

But that was only up to the point of the start of EMU. The evidence for convergence since then has been much less convincing. On the contrary, the experience of EMU has been divergence. That divergence was cruelly exposed in the Eurozone debt depression in 2012, which forced bailouts on Ireland, Portugal and Spain and nearly led to the expulsion of Greece. The EU was no longer a positive role model for British capital, and certainly not for swathes of the British population. ‘Populism’ and euro-scepticism reared up in many EU countries, but no more so than in ‘imperialist’ Britain.

So would British capital do better outside the EU from here? The answer is that it depends, but on balance, probably not. It is true that much of the gains from free trade within the EU has been exhausted. But it is a myth pushed by the EU-leavers that Britain can negotiate just as good trade terms with the EU and other countries as they had within the EU without all the EU regulations and budget funding for EU institutions. The EU institutions are certainly not holding the UK back from selling globally. Germany has a world trade volume that is more than three times the UK figure, but it is suffering from the economic slowdown in China. It is unlikely that British capital would do better than Germany by opting for Asia or America over Europe for exports or investment. Indeed, given the trade and technology war that has broken out between the US and China, this is not a good time to expect increased trade with Asia.

And the experience of European countries like Norway or Switzerland that have negotiated such agreements with the EU and other blocs shows that with any trade deal comes obligations and conditions. In their deal with the EU, Norway and Switzerland must abide by all EU single market standards and regulations, without any say in their formulation. They must agree to translate all relevant EU laws into their domestic legislation without consulting domestic voters. They contribute substantially to the EU budget. And they must accept unlimited EU immigration, resulting in a higher share of EU immigrants in the Swiss and Norwegian populations than in the UK! So overall, for British capital, there would be little difference outside than being in the EU, if it negotiated a similar arrangement that Norway and Switzerland have.

Also, European Economic Association (EEA) members such as Norway do not belong to the EU's customs union. Consequently, Norwegian exports must satisfy 'rules of origin' requirements in order to enter the EU duty free and the EU can use anti-dumping measures to restrict imports from Norway, as occurred in 2006 when the EU imposed a 16% tariff on imports of Norwegian salmon. EEA members effectively pay a fee to be part of the Single Market. In 2011 Norway's contribution to the EU budget was £106 per capita, only 17% lower than the UK's net contribution of £128 per capita.[5] So becoming part of the EEA would not generate substantial fiscal savings for the UK government and taxpayers. The UK's contribution to the EU budget, after rebates, is not particularly high per head of population and low as a percentage of GDP compared to other EU members.

The most important feature of British imperialism is that it is a *rentier* economy, meaning that it gets the bulk of its surplus value through extracting 'rents' in the form of interest, financial commissions and speculation in fictitious capital, increasingly from overseas, and less from the direct exploitation of labour in production at home. The UK is no longer

5 House of Commons report, 2013. https://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN06522

a manufacturing nation as it was in the 19th century. Now it is a service-based economy relying on imperialist flows of capital and income – the financial middleman for the global economy.

The key interest of British capital is to preserve its hegemonic global position in financial services – but with the UK outside the EU that hegemony could come under threat. Britain's specialisation in services – not only finance, but also law, accountancy, media, architecture, pharmaceutical research and so on – makes entry to the EU single market critical. Yet its service industries could be locked out. The French, German, and Irish governments would be particularly delighted to see UK-based banks and hedge funds isolated, and see UK-based businesses involved in asset management, insurance, accountancy, law, and media forced to transfer their jobs, head offices, and tax payments to Paris, Frankfurt, or Dublin.

EU states may also try and usurp the UK's position as the EU's most popular destination for foreign direct investment. Over the past 15 years, the UK has received more than 20% of inward EU FDI. But without full access to the EU's internal markets, future FDI flows into car factories or financial services hubs might be redirected and create jobs elsewhere in the EU.

What about turning the UK into a giant tax haven like Switzerland or Ireland, or deregulating industry and labour so that Britain becomes the port of call for multi-nationals looking for cheap educated labour and low taxation? That is the aim of the Brexiters. But as it is, Britain is already one of the least regulated countries in the world, as previous Labour and Conservative governments have boasted. So getting rid of any EU regulations by leaving would have little added value for British capital, even if it reduced conditions for labour.

After all, the euro debt crisis in Greece, Portugal, Spain, Italy etc. was mainly to do with the crisis in capitalism since 2007 and not really to do with the institutions of the EU, cumbersome, bureaucratic and undemocratic as they are; or to do with the policies of the EU leaders for Europe. The neo-liberal, pro-austerity measures applied by the EU Commission are the very same policies adopted by the national governments of Europe on their people. EU policy is no more neo-liberal and pro-big business than is the policy of successive British governments of the last two decades, Conservative or Labour.

Anyway, even outside the EU, the UK would still be subject to 700 international treaties, as a member of the UN, WTO, NATO, IMF and World Bank, and subscribe to a swathe of nuclear test ban, energy, water, maritime law and air traffic treaties. The idea that leaving the EU would lead to a golden era of UK capital control and self-determination, is, it is fair to say, far-fetched at least. National sovereignty is a relative concept in modern imperialism.

As for the interests of labour, Britain's Trade Union Congress (TUC) reckons that there are benefits for British workers from the EU. In a

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report[6], the TUC cites rights such as paid annual leave and fair treatment for part-time workers may be in danger that could be rolled back by a Conservative government: *"These are wide-ranging in scope, including access to paid annual holidays, improved health and safety protection, rights to unpaid parental leave, rights to time off work for urgent family reasons, equal treatment rights for part-time, fixed-term and agency workers, rights for outsourced workers, and rights for workers' representatives to receive information and be consulted, particularly in the context of restructuring. And without the back-up of EU laws, unscrupulous employers will have free rein to cut many of their workers' hard-won benefits and protections".*

But the TUC exaggerates. EU laws and directives like the 48-hour working week are hardly worth the paper that they have been written on, with many exemptions for employment sectors for example, like junior hospital doctors on a 72-hour week or the practice of many employers to get employees to sign a 'waiver' on working hours and conditions. The point is that most of working conditions are determined by national laws and by the class struggle at the workplace, not by EU laws. Those battles have not been hindered or helped much either way by EU employment laws.

Even this isn't the whole story, though, as it has become much more difficult in the UK for workers to enforce any employment law. The introduction of employment tribunal fees has seen a sharp drop in the number of cases being brought. As an employer in the UK, there isn't much employment law to fall foul of but, even if you do, the chances of being prosecuted for it are pretty remote.

Then there is the question of immigration. Leaving the EU would supposedly allow Britain to block cheap labour from Eastern Europe flooding into the country and lowering wages and conditions. Or so the argument goes. But reducing immigration will not improve the situation for working people already in the UK. Migrants often fill the gaps in the labour market that Britons won't or can't fill. To take one example, strawberries are now available in the shops for much longer. They are picked by migrant workers who return to Eastern Europe at the end of the season. Care work is another industry heavily populated with migrant labour. Migrants often perform low paid, dirty work that British workers would be reluctant to perform. Indeed, the UK's growth rate in the last 20 years has only matched that of the major EU economies because of a relatively fast-expanding workforce from young immigrant workers who pay tax and social insurance and do not use health services or pensions as much.

Around 3.7% of the total EU workforce – 3 million people – now work in a member state other than their own[7]. The number of students studying in another EU state other than their own has increased from 3,000 in 1988 to 272,000 in 2014. Since 1987, over 3.3 million students and 470,000 teaching staff have taken part in the EU's Erasmus programme. There are 1.5 million Brits living in other EU countries and two-thirds of the long-term residents (800,000) are working (not retired) – although the UK has the lowest proportion of citizens living in the rest of the EU.

EU immigrants (indeed all immigrants) have contributed more to the UK economy in taxes (income and VAT), in filling low-paid jobs (hospitals, hotels, restaurants, farming, transport) than they have taken up (in extra cost of schools, public services etc). That's because most are young (often single) and help pay pension contributions for those Brits who are retired. But the Brexit referendum has already brought about a sharp drop in net immigration into the UK from the EU, down 50-100,000 and still falling. That can only add to the loss of national income and tax revenues down the road.

The pressure on public services and social resources in the UK is not the result of 'too much immigration' – on the contrary. It is a result of huge cuts in public spending by the Conservative government and the overall slowdown in economic growth. The answer is to stop cutting taxes for the rich and instead boost public spending, in welfare and investment. State pension levels in the UK, relative to average wages, are the lowest in the OECD. This has nothing to do with immigration, but only to do with the weak state of British capital and government policies against labour.

British capitalism on its own

So whether Britain is in or out of the European Union will make little difference to the majority of people in the UK. What does matter is the health of the economy, the level of wages and employment and the state of public services. That does not depend on Britain's membership of the EU. Only if 'freedom' from EU institutions were to produce a sharp increase in productivity, investment and trade with the rest of the world, would these losses be overcome. On balance, that seems unlikely.

6 https://www.tuc.org.uk/campaigns/our-brexit-campaign

7 https://ec.europa.eu/eurostat/statistics-explained/index.php?title=EU_citizens_living_in_another_Member_State_-_statistical_overview

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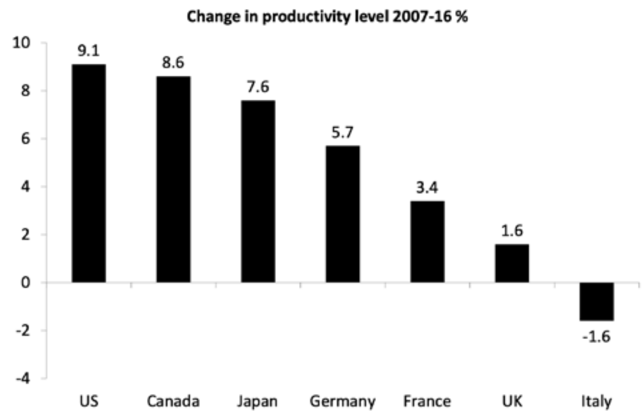
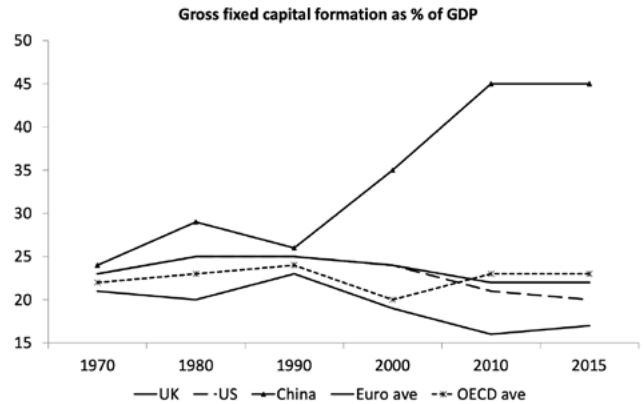


Source: OECD

Business investment in productive assets has been abysmally poor in the UK compared to other major economies.



Source: OECD

When we consider the impact of Brexit, it is clear that it has already had a detrimental effect on the UK capitalist economy. During the referendum campaign in 2016, the combined forces of the then Tory government of Cameron and Osborne, the Liberal Democrat junior coalition partners, the right-wing of the Labour party, the City of London and big business screamed that to 'vote leave' would lead to the collapse of the economy and a deep recession. This exaggeration, called Project Fear by the leavers, was only matched by the lies of the anti-immigrant UKIP party and the Tory right who claimed that leaving the EU would lead to extra money for the hard-pressed health service, trade would flourish and there would be prosperity all round.

Neither view was right. There may have been no economic recession, but the 'uncertainty' of the last two years and interminable

squabbling has been accompanied by a sharp slowdown in Britain's economic expansion. Sterling's value has dropped from US $1.70 in 2014 to US $1.25 now, more than 20%.

Britain's trade deficit with the rest of the world has widened to around 6% of GDP; and real GDP growth has slid back from over 2% a year to below 1.5%, with industrial production crawling along at 1%. Whereas the UK economy was doing better than most other G7 top economies in 2015, it is now doing even worse than Italy, while inflation has picked up due to the devaluation of the currency – so much for the argument often presented by Keynesians that having the ability to control the national currency (unlike those in the Eurozone such as Greece) can help restore economic growth and avoid austerity. Depreciation of a currency is not enough or even beneficial. Indeed, higher inflation and slower economic growth in the last two years have hit the average British household hard. Real wage growth disappeared and has only just returned at a feeble rate. Above all, from the point of view of British capital, business investment stagnated as companies paused on any investment plans while waiting for clarity on the Brexit deal.

And now with the possibility still of no transition deal with the EU, Project Fear has returned. The Bank of England's economists reckon that if there is a 'no deal' Brexit, then the UK economy could shrink 5% in 2020, while interest rates would rise to 5% to protect the pound and guard against rampant inflation, and home prices would fall by up to 30%![8] This would be a bigger decline than during the Great Recession of 2008-9. Capital Economics researchers are less pessimistic but still estimate that a 'disruptive no-deal Brexit', where the UK and the EU do not co-operate, could knock 3% off Britain's likely national income in 2020 and possibly cause *"an outright recession".* [9]

However, a "managed" no-deal scenario — where the two sides seek to minimise disruption in key areas, for example by agreeing arrangements to enable flights between the UK and mainland Europe — would *only* involve a 1% hit to gross domestic product by 2020. Oxford Economics estimates that in this 'managed scenario' the economy would still *"flirt with recession"* and GDP would be 2% lower than its current baseline forecast by the end of 2020.[10]

But let us look further ahead. Assuming the UK leaves the EU this year with a transition deal in place and eventually some long-term trade arrangement is reached with the EU, what are the prospects for 1) British capital and 2) British labour? For British industry and service sectors,

8 https://www.bankofengland.co.uk/eu-withdrawal

9 https://www.capitaleconomics.com/publications/uk-economics/uk-economics-update/pick-your-own-brexit-forecast/

10 https://www.oxfordeconomics.com/brexit

Europe is the main trading partner. About 57% of UK goods trade is with EU; and 40% of services trade.

Most long-term forecasts by mainstream economic institutes, including the Bank of England and the UK government, reckon that there would be an accumulated loss in real GDP from potential for the UK over the next ten to 15 years of between 4-10% of GDP from leaving the EU.[11] That's a 3% of GDP loss per person, equivalent to about £1000 per person per year. It all depends on whether any deal keeps the UK in a customs union (with similar tariffs and border regulations) with the EU and what parts of the existing Single Market (freedom of movement of labour and capital and citizens' rights) are preserved.

But whatever the final trade deal with the EU (or no deal), it does not mean an actual *fall* in UK GDP over the next ten to 15 years. This cannot be emphasised enough. The UK economy will not be smaller in ten years if it leaves the EU, it will just grow slower than it otherwise would have. The current average growth rate for the UK has been about 2% a year since 2010, which is down from an average 2.6% a year before the Great Recession in 2008. Most mainstream forecasts are predicting a slowing of the growth rate to between 1.3-1.6% a year depending on the nature of the final deal with the EU. This is hardly a disaster, if still a significant loss.

The UK economy already has weak investment and productivity growth compared with the 1990s and with other OECD countries. As it is a 'rentier' economy that depends too heavily on its financial and business services sector, services sector trade with the EU is likely to fall 50-65% after Brexit. Many banks, insurers and asset managers who want to retain access to customers in the EU have already redirected hundreds of millions of pounds of investment towards new or expanded hubs in the bloc. Nearly 40 banks from London have applied to the European Central Bank for licences. According to Frankfurt Main Finance, which promotes German financial capital, these are set to transfer 750-800 billion euros in assets in 2019. This is still a trickle, but it could turn into a flood.

British labour is already taking a pounding. Research by the British Trades Union Congress (TUC) found that the average worker has lost £11,800 in real earnings since 2008.[12] The UK has suffered the worst real wage slump among leading economies. Stephen Clarke, senior economic analyst at the Resolution Foundation think tank, put it: *"While wages are currently growing at their fastest rate in a decade and employment is at a record high, the sobering big picture is that inflation-adjusted pay is still almost £5,000 a year lower than when Lehman Brothers was still around."*

Immigration into the UK from EU countries has been significant; but it also works the other way; with many Brits working and living in continental Europe. The number of EU citizens living in member states other than their own has risen from 4.6 million in 1995 to 16 million in 2015. And 22 of the 28 EU Member States participate in the Schengen Agreement, which allows passport-free travel for over 400 million citizens, who make over 4 million trips as tourists in another member state every year. With the UK out of the EU, British travellers will be subject to travel visas and other costs that will be greater than the total money per person saved from contributions to the EU.

11 Bank of England op cit

12 https://www.tuc.org.uk/news/real-pay-cut-millions-lower-and-middle-paid-workers-tuc-analysis-reveals

The elephant in the room

And all these forecasts ignore the elephant in the room for the UK economy – another global slump or recession. The forecasts are based on *ceteris paribus* (other things being equal). But they won't be. Can it be realistic to assume that there will be no major slump in the major capitalist economies over the next ten to 15 years? Europe itself already has a recession in the manufacturing sector. Ironically, as the UK leaves the EU, the fate of Brexit Britain will be tied even closer to the fate of the EU and the euro. This is the paradox of unintended consequences.

There are two ways a capitalist economy can get out of slump. The first is by raising the rate of exploitation of the workforce enough to drive up profits and renew investment. The second is to liquidate weak and unprofitable capital (i.e., companies) or write off old machinery, equipment, and plant from company books (i.e., devalue the stock of capital). Capitalists attempt to do both in order to restore profits and profitability after a slump.

This is taking a long time in the current crisis, since the bottom of the Great Recession in mid-2009. Progress in devaluing and deleveraging the stock of capital and debt built up before is taking time and even being postponed by monetary policy. But progress in raising the rate of exploitation has been considerable.

Ultimately, whether the euro and the EU will survive is a political issue, depending on the majority view of the strategists of capital in the stronger economies and on the balance of class forces within the Eurozone. The EU leaders and strategists of capital need economic growth to return soon, or further political explosions are likely. But, given the current level of profitability, this may not occur before the world economy drops into another slump. Then, all bets are off on the survival of the euro.

A slump in the UK is unavoidable too. And such a slump as experienced in 2008-9 would deliver much more long-lasting damage to national income than even a 'bad Brexit' deal.

The UK economy, like all the other major economies in the Long Depression that has taken place in the last ten years, has experienced a permanent *relative* loss in GDP – in the UK's case of over 25%. In other words, the UK economy has had average growth some one-quarter slower since 2008 than it did before. Even if it continued to grow at around 2% over the next ten years with no impact from Brexit, that relative loss from

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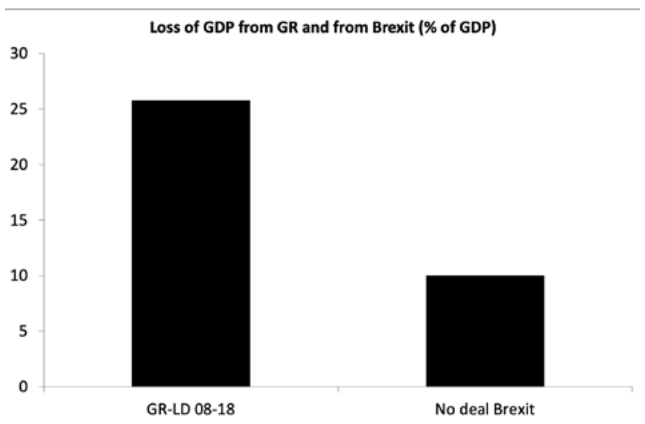
the Great Recession would reach 40% by 2030. That would be four times as much as the worst outcome from Brexit.



Source: Author's calculations

So a new economic slump would be way more damaging to the UK economy than Brexit. Brexit will just be an extra burden for British capital to face. On balance, leaving the EU is a negative for British capital but it is also not good news for British labour, even if the hit is relatively small compared to the hit that working-class households suffer from regular and recurring slumps in capitalist production, especially when followed by depressionary stagnation, as in the last ten years. The Brexit debacle will leave a permanent scar on the living standards of the British people.

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