

Will Brexit Destroy The UK's Economy? An Interview With Malcolm Sawyer



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More than a year ago, British voters sent waves of shock throughout Europe and the world economy with their decision to withdraw from the European Union (EU). However, the impact of Brexit on the UK's economy and its implications for the future of the EU remain contested territory, especially since the conservative government of Theresa May has shown astonishing ineptness so far in terms of the conditions of the divorce. In this interview, well-known British economist *Malcolm Sawyer* of the University of Leeds provides an insightful analysis on the major issues and questions associated with Brexit, shedding light on what the future may hold for both the UK and the EU.

C.J. Polychroniou and Marcus Rolle: Britain's decision last year to leave the European Union represents a shattering political development, the effects of which remain incalculable both for the future of the United Kingdom and for the EU itself. But before we explore the political economy of Brexit, let's start by asking you to explain to us what you believe were the key factors that prompted British voters to seek a divorce from the European Union.

Malcolm Sawyer: The result of the referendum vote of June 2016 was close — 52

percent [voted] “leave EU” and 48 percent [voted] to remain. In any referendum (and indeed other elections), it is difficult [if not] impossible to discern what people thought they were voting for or against. In this referendum, whilst the consequences of a “remain” majority could be perceived as continuation with present arrangements, those of a “leave” majority were obscure — and indeed, the UK government is now grappling with working out what the consequences will be.

For those who voted for the UK to leave, my impressions are that the key factors include:

- The appeal of “take back control,” particularly with regard to immigration and the free movement of labor within the EU. Whilst there appear to be net economic benefits for the UK from immigration, there will be winners and losers, and people’s perceptions may often be of little or no benefits: added to which, hostility towards foreigners.
- The remoteness of the EU, often labelled in terms of “Brussels” with connotations that decisions of the EU were being imposed on the UK without input from the UK. This interacted with the “take back control” and could be stoked up by stories (often false) of decisions made by the EU.
- Disbelief that the UK’s membership of the EU brought economic benefits. The UK’s contribution to the EU budget (a net cost of around ½ percent of GDP) was apparent (though much overstated by the leave campaign), and the benefits for enhanced trade and cooperation much more nebulous. The remain campaign would cite 3 million jobs dependent on trade with EU (again overstated), but that would mean 27 million jobs were not dependent on such trade.

A breakdown of the vote revealed two fractures: a sharp division between young and old, and a huge gap between London and the North. What does the political economy have to do with these two fractures, and what sort of economic policies can be implemented in the future that can heal a divided nation?

The voting patterns with regard to remain/leave can be broken down along a number of lines — a tendency for large cities to vote remain (not just London), two countries voted to remain (Scotland, Northern Ireland) and two to leave (England, Wales). Having a university education tended to be associated with voting “remain,” and the old were much more likely than the young to vote leave (there being overlap between the two in that participation in higher education was much lower in the 1950s and 1960s than in the past two decades).

There appears to be association between socially conservative attitudes and voting leave. Areas of industrial decline appeared more likely to vote leave, [as did] areas where immigration had increased substantially in the past decade (noting that migration from other EU countries rose sharply after 2004 with the entry of the new member states in that year).

There is, in my view, a division between remain voters and leave voters running along the lines of “what matters to them.” A potent slogan of the leave campaign was “taking back control” — applied to immigration (as the free movement of labor places few constraints on migration within the EU), and to the role of [the] European Court of Justice, and more generally, to adoption of laws (though the impact of EU legislation on UK legislation was often grossly overstated by leave campaign), and to some degree, over regulations associated with the single market, and over policies, such as the common fishery policy.

The remain campaign focused on the adverse economic consequences of the UK leaving the EU, and failed to address the issues raised by the leave campaign in connection with “take back control.” Although large numbers were bandied about for the economic losses associated with leave, in proportional terms, the losses were relatively small (less than 5 percent of GDP over a 15-year period, and then as compared with what would have otherwise occurred). If a person’s concern is over perception of a loss of control, and striving to take “back control,” then some economic loss may well appear inconsequential. But also, the leave campaign’s slogan to the effect that £350 million a week (equivalent to around 1 percent of UK GDP) was the cost to the UK of EU’s membership, money which could be spent on the NHS, served as an antidote to the remain campaign’s claims over economic damage from leaving the EU. The £350 million per week claim was much derided as inaccurate, representing the gross payments by UK to the EU and ignoring the money flowing back to the UK for the agricultural support policy, regional and structural funds, and research moneys to universities.

The “take back control” view now places severe constraints on the deal that can be struck between the UK and the rest of the EU. Membership of the EU is a binary (yes/no) issue, and as such, not one on which some compromise between different views [are] struck. There are, though, a number of alternatives possible, such as arrangements comparable to those which Norway has with the EU which would permit many of the features of EU membership (membership of the single market, acceptance of free movement of labor, contribution to the EU budget).

However, those alternatives will be seen by many of the supporters of leave the EU to retain features to which they are particularly hostile, such as the free movement of labor or the UK coming, to some degree, under the jurisdiction of the European Court of Justice.

The population is divided almost evenly over the UK's membership in the EU, and in that sense, the nation is divided. But how significant are those divisions? And are the divisions any more significant than the whole range of political, social and economic divisions that are ever-present? Often in opinion polls, the issue of the UK's relationships came relatively low on the list of people's concerns. There are clearly some for whom the UK's membership in the EU is the defining issue, and on which there are strong nationalistic feelings. There cannot be an outcome in terms of the UK's relationship with the EU which satisfies a large majority, and my expectation is that the outcome may well be one which does not satisfy anyone. There will be some economic losses, particularly in the short run; yet there will not be the restoration of control, which the leavers were promised.

For the next few years, the political attention will no doubt focus on the UK's withdrawal from the EU and the alternative trading relationships between UK, the EU and the rest of world. These are no doubt important issues, but in my view, this focus threatens to detract from political debates over economic and other policies within the UK. Can the UK throw off the shackles of austerity? Can the UK address the gross inequalities (between people, between regions) and poverty which [plague] our society? Can the progressive policies which have come from the EU be retained (e.g., in the areas of environmental protection and addressing climate change) whilst jettisoning the regressive policies?

Many economists have expressed quite alarmist sentiments regarding the actual impact of Brexit on UK's economy, but that's not the case with you. Why are you less concerned about the consequences of Britain's withdrawal from the European Union than most other members of your profession seem to be?

It is indeed the case that the vast majority of economists view the UK's exit from the EU in negative terms — this is in some contrast to the opinion in the early 1970s, prior to the UK's entry where there was close to even division. In the early 1970s, there were perceived to be trade gains from the removal of tariffs between the UK and the then six countries of the “common market,” but losses from the imposition of tariffs between the UK and countries of the British Commonwealth,

and from the Common Agricultural Policy and the loss of “cheap” food from countries, such as Australia and New Zealand.

In contrast, the exit of the UK from the EU could result in some loss of trade between the UK and the rest of the EU, depending on the trade arrangements, but a tariff-free access to the single market for the UK (and corresponding arrangements for trade into the UK from the EU) would mean the loss would be rather small. The proponents of leave would argue that the UK will (eventually) be able to enter into trade agreements with a range of non-EU countries which would lower tariffs between the UK and the countries with whom agreements are struck. Such agreements are likely to bring rather small benefits: this is in part because tariffs are often already low, and in part because it would generally be replacing an EU-wide agreement with the country concerned to which the UK is currently a party with a UK-specific agreement with that country.

I do not place so much weight of the effects of international trade on employment and output as many do. I also would not place as much weight on the effects of enhanced international trade on productivity and competitiveness. The lowering of barriers to trade within the EU as a result of the “single market” was portrayed by the European Commission as leading to higher levels of output by as much as 6 percent. In a similar vein, the formation of the single currency (euro) with the removal of exchange transaction costs and exchange rate risks was intended to stimulate trade and employment. In the outturn, there is scant evidence that output and employment rose as a result. Indeed, trade amongst EU member countries has declined in relative importance as compared with trade between EU member countries and the rest of the world.

My general view is that there are some negative economic effects of the UK leaving the EU. They will be particularly pronounced in the short to medium term, as there will be inevitable disruption as adjustments to the new trading patterns take place. These negative effects could be reduced through a well-designed transitional program, though the prospects for such a program do not appear to be good. It will also depend on the economic program that the UK government adopts after exit. The right-of-center supporters of leave have tended to be pro-market and anti-government intervention, whereas the process of exit from the EU will require government interventions in areas, such as regional policies (to replace those funded from the EU), redesign of agricultural policies and financial assistance with restructuring of the economy. It will also likely require Keynesian

stimulus policies to offset the deflationary effects of exit.

The current government seems to be totally clueless about how to proceed with Brexit. Is a hard or soft Brexit a more likely scenario, and what's the difference between the two in terms of the future relationship between Britain and the European Union?

The current UK government is led by someone (Theresa May) who campaigned (mildly) for remain, yet now claims that “Brexit means Brexit.” Her position appears to combine a view that there would be economic benefits from the UK remaining within the EU with a strong aversion to immigration and to the jurisdiction of the European Court of Justice over some UK affairs.

The terms “hard Brexit” and “soft Brexit” are not generally well-defined, and discussion of the possible different arrangements between the UK and the EU could be separated into the transitional arrangements and the longer-term arrangements. In terms of longer-term arrangements, the range of possibilities run from a “Norway-style arrangement” (remain within the single market, accept free movement of labor, contributions to the EU budget), through to a trading arrangement between the UK and the EU on World Trade Organization (WTO) rules, whereby the tariffs charged by EU on imports from the UK, and UK on imports from EU would be as charged on imports from other countries.

My view is that the “Norway solution” would not be acceptable to most of the Conservative Party. It is possible that a majority could be constructed within the UK Parliament to back such a solution (drawing on much of the Labour Party and other opposition parties, plus some remainers within the Conservative Party); it would have many elements which would be unacceptable to most members of the Cabinet, including the prime minister. The WTO trade arrangements solution would clearly be viable in the longer term, but throws up many issues for the transitional arrangements. These include the effects on the supply chains that stretch across the EU, including the UK, with the introduction of tariffs and non-tariff barriers on the movement of goods between EU and the UK. A further issue concerns the land border between the UK and the EU — that is, between Northern Ireland and the Irish Republic. Checks on the movement of goods and of people would be required, disrupting the economic and other relationships between the Irish Republic and Northern Ireland.

Poorly designed and rapid transitional arrangements have the potential to inflict significant damage.

Quite a significant number of people from the left that supported the leave camp did so under the apparent conviction that a withdrawal from the European Union will put a break on the further implementation of neoliberal policies in Britain. However, wasn't it the British government that was at the forefront of the neoliberal counterrevolution?

There has been a longstanding belief (back to the 1960s) that the UK's membership in the EU would limit a socialist program of public ownership. Programs of import controls and of restrictions on capital movements also featured in left thinking in the 1970s and 1980s, and again, their implementation was seen as limited by the UK's membership in the EU. In general, there were not limits on public ownership *per se*, though there are now on public ownership combined with a monopoly position for the public corporation. There are constraints that are placed on the UK's industrial policies arising from EU membership, most notably the limits on state aid.

The UK was indeed at the forefront of neoliberalism — notably in the 1980s under the Thatcher government and its privatization program, its industrial relations “reforms,” its program of deregulation (notably in the financial sector). The UK government, both Conservative and (new) Labour have generally been supportive and indeed pushing a liberalization agenda in respect to formerly publicly owned monopolies. The general drift of economic policies at the national level within the EU, and to some degree at the EU level, has been in the neoliberal direction. In general, these are policies that have found favor in the UK.

There are though examples where the UK has been pushed away from neoliberal type policies and [the Social Chapter is a notable example](#). The Social Chapter is the name commonly used to describe the Social Policy Agreement [made] at Maastricht in December 1991, from which the UK initially secured an opt-out which was reversed by the incoming Labour government. The Social Policy Agreement allows action on a qualified majority in the areas of the working environment to protect workers' health and safety and working conditions and equality between men and women with regard to labor market opportunities and treatment at work. The use of a qualified majority voting (amongst EU member countries) rather than unanimity means that policies can be imposed on a

member country to which the government of that country may be opposed. The policies introduced through the Social Chapter have been generally more favorable to workers' rights than many in the UK would have wished.

Overall, it is a complex picture. There are constraints on adoption of types of policies through the UK being a member of the EU — some of those are on policies which have often been associated with the left, but others (notably on deregulation) are more associated with the right. The most significant factor leading to the adoption of neoliberal policies in the UK has been the dominance of neoliberalism in the UK amongst all political parties.

The European Union is undoubtedly a highly bureaucratic and even anti-democratic institution, with Germany having things its own way on virtually all major issues affecting governance and economic policymaking. In your view, then, can the EU be reformed, or is delinking the only realistic alternative for those who desire a return to the social state and a more humane socio-economic order in general?

There are undoubtedly many ways in which the democratic accountability and transparency can be increased within the European Union, including enhanced powers for the European Parliament, direct election of the president, democratic control of the European Central Bank. I am, though, not convinced that the lack of democracy at the EU level is worse than it is at the national levels within the EU. By comparison with the UK, the EU does not have a hereditary head of state, nor does it have an unelected second parliamentary chamber; nor does it have a "first past the post" electoral system under which minor political parties have little or no parliamentary representation and in which a large parliamentary majority can go along with a minority vote from the electorate.

I have particularly considered some of these issues in my (forthcoming) book, *Can the Euro be Saved?* (Polity Press) in respect of the euro area. I argue in that regard that the euro area needs reform if there is to be economic prosperity within the euro area which is widespread, and those reforms include repeal of the "fiscal compact," end of the "independence" of the European Central Bank, moves toward a European social security system and developments of EU-level industrial and regional policies. These are required, in my view, to enhance the functioning of a single currency and to restore economic prosperity. The policies could be seen as moves toward *de facto* political union. The adoption of an agenda such as

the one outlined faces obstacles which are probably insurmountable. Such an agenda would clash with the ordoliberal agenda, which has dominated the European Economic and Monetary Union (EMU) approach to macroeconomic policies in two ways. First, the ordoliberal agenda is embodied into law, and in the case of EMU/EU, changes to the laws would require unanimous agreement between the nations of the EU. Second, the ordoliberal agenda reflects the perceived interests and political outlook of the German government (and more generally German establishment).

Drawing on the arguments which I advanced in the specific context of the euro area, there is a basic need for the revival of progressive politics of a modernized social democratic perspective which can change the economic and social policies of the EU and its member countries. But within the framework of the EU, even such a revival would face formidable obstacles of implementing change, including those from unanimity rules and treaty obligations. Moves toward a political union with greater democracy will be required — for which the prospects look bleak.

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