



TURNING POINT

# BREXIT AND EUROPE

## EXPERT VIEW

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The UK held a referendum two weeks ago, for people to decide whether to leave or remain in the European Union (EU). The stunning outcome, described as Brexit, would have been difficult to imagine, let alone anticipate, when David Cameron was re-elected Prime Minister with a strong mandate in May 2015. The tremors unleashed by this decision have placed Britain centre stage in world news after decades. It could turn out to be a historic turning point, at least for the UK if not Europe, or it might just recede in our memories with the passage of time. The future is uncertain.

The aftermath is visible. Prime Minister Cameron, who recklessly promised a referendum to mollify the Eurosceptics among Conservatives, and led a failed "Remain" campaign, has resigned. Opposition leader Jeremy Corbyn, always ambiguous about Europe, has lost a vote of confidence moved by Labour MPs, but refuses to resign. The leaders of the "Leave" campaign who made many false promises seem to have lost their voice. The pound sterling has plummeted to its lowest level in 30 years. Almost 4 million people have signed a petition calling for a repeat referendum. Research and polls suggest that 2 million people regret their decision to vote for "Leave". The top two questions, for which UK people sought answers from Google after the vote, are ridiculous—*What does it mean to leave the EU? What is the EU?*

The divides are worrisome. The voting pattern reveals sharp divisions among British people in terms of age, class and geography. The younger, the educated, and the better-off voted to remain, while the older, the less educated, and the worse-off voted to leave. Scotland and Northern Ireland voted to remain, while England and Wales voted to leave. In England, the vote to remain was concentrated in London and its surrounding areas but large parts of England voted to leave. In sum, people's perceptions about whether they were winners or losers from being part of the EU shaped their voting decisions.

The question is why. It could be that the British, with their sense of national identity, have always been reluctant Europeans. This was at the heart of the fierce debate among historians in the

lead-up to the referendum. The British also loved to complain about intrusive regulations, faceless bureaucrats and budgetary demands imposed on them by Brussels. Yet, the UK did get a good deal from the EU. It did not join the eurozone, which was the right decision for a wrong reason. It was not part of the Schengen arrangement. It managed other opt-outs from the EU rules.

On the surface, then, it might seem that concerns about immigration from countries that were late entrants to the EU, or fears about an influx of refugees, indeed even imagined Turkish migrants, all stressed by the "Leave" campaign, were critical underlying factors. But this reason was more symptomatic than substantive. It was driven by fears of unemployment. There were other discontents too. Essentially, it was about a sense of exclusion from the benefits of integration with Europe. This sentiment was accentuated by sermons from the literati and the influential on television and in newspapers—politicians, economists, industrialists, bankers, journalists, or intellectuals—seen as elites by ordinary people. The resulting politics of resentment and anger transformed the potential "Remain" into an actual "Leave" vote.

The economic and political consequences of Brexit for the UK and Europe will become clearer as reality unfolds. Even so, it is necessary to analyse possible outcomes.

The UK economy will lose its access to the EU as a single market, which provides for free movement of goods, services, capital and people. The costs could be high. The EU accounts for half its trade. London is the hub for Europe's capital market and financial services. Immigrants do jobs that citizens will not and contribute to economic dynamism. In the short run, Brexit could lower investment, slow down growth, and reduce jobs. Eroding confidence and increasing uncertainty might compound difficulties.

The optimists hope that there could be an alternative arrangement with the EU that does not close doors. The European Economic Area, of which Norway and Iceland are part, does have access to the single market but is required to accept free movement of people and make budgetary contributions, without any say in the EU rules. In this model, the UK would be clearly worse off than at present

because it would have the obligations without the rights. Outside this model, it would be splendid isolation on a par with countries outside Europe.

The political consequences, too, are a cause for concern. It has made matters much more complicated for elected representatives in a political democracy. In an attempt at direct democracy, where the referendum offered an either-or binary choice to people, representative democracy, where the majority view was the opposite, has been bypassed. The lines between political parties, already diffused in terms of ideologies, have been blurred further. It is no longer about "right" and "left". It is about "pro-EU" or "anti-EU", which makes for strange bedfellows.

The dividing lines in economy, society and polity defined by age or class are difficult enough. An overwhelmingly large proportion of the younger population, who have to live with this decision for long, voted to remain, while a very large proportion of the older generation, with a much shorter span of life to come, voted to leave. The richer, more privileged segment of the population, included in prosperity, voted to remain, while the poorer, less privileged sections of the population, excluded from prosperity, voted to leave. The geographical divides make the problem even more complex. The First Minister of Scotland wants a second

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referendum on independence and seeks to remain in the EU. The Northern Ireland vote for "Remain" has prompted Sinn Féin to call for a united Ireland. The politics of reconciliation, or secession, will not be easy.

Even before Brexit, structural problems attributable to spread rather than depth had surfaced in the EU. These are likely to be accentuated. In politics, the expansion to EU-28, made up of countries with enormous differences in size, history, systems and incomes, had made decision-making slow and cumbersome. This is best described as the convoy-problem, where everyone was forced to move at the speed of the slowest.

In economics, the eurozone slowly extended to as many as 19 countries. The underlying macroeconomics was, and is, unsustainable. Simply put, a unified exchange-rate system requires member countries to align rates of inflation. And

adjustment takes place through unemployment levels, since the exchange rate is no longer an adjustable price. Thus, for some countries, such as Greece, the socioeconomic costs of adjustment to stay within the euro are too high. Ironically enough, the euro is neither necessary nor sufficient for the EU to exist as a single market or a political formation.

Consequently, there are mounting tensions and growing contradictions among EU member states. Citizens of richer countries resent the budgetary support to EU, which is used for transfers or payments to poorer countries. There are also enormous strains between creditor economies and debtor economies in the eurozone. These economic problems are not without their political corollaries.

The political implications are a clear and present danger for EU. The fear of refugees, following Angela Merkel's gracious decision to admit 800,000 asylum-seekers from conflict zones in the Middle East, could be a tipping point. The demonstration effects of Brexit could be powerful, as Marine Le Pen in France and Geert Wilders in the Netherlands have already demanded a referendum in their countries. The smaller, poorer, member states under economic stress might seek partial opt-outs or temporary waivers. The excluded countries, Russia and Turkey, vicarious pleasure apart, might seek to fish in the troubled waters of internal strife in Europe.

In my view, the EU as a political project is both necessary and desirable for the world as whole. It has preserved the peace in Europe—a continent with a long history of conflict and wars—for more than half a century. Its voice and influence as a political formation has been a balancing factor, to begin with in the Cold War, then in the unipolar world after the collapse of communism, and now in a changing world order where China aspires to rival the US as a superpower. It has provided the world economy with the largest single market, which has helped economic development in countries that were underdeveloped parts of Europe fifty years ago. These roles might be at risk with a diminished EU.

There is another dimension in politics. The present phase of market-driven globalization, starting around 1980, has created prosperity for a few and exclusion for many. There is exclusion of people, and of regions, within countries. Economic inequalities have risen sharply almost everywhere. Such exclusion has led those who have not shared in the prosperity to assert, or seek solace in, their national identities. Populist politics has sought to mobilize and exploit this sentiment for its partisan ends. Brexit is one manifestation of this backlash against globalization. The Donald Trump phenomenon in the US is another. The political rise of ultra-right nationalist parties in many European countries are further examples of this syndrome.

The irony is that the people hoping to fare better under the umbrella of national identity politics are likely to fare worse. Indeed, excluded people and regions—the supporters of Brexit—could well be worse-off in a UK outside the EU, because a disproportionately large part of the adjustment burden will be borne by unemployed people or poorer regions. Thus, Brexit is a warning signal, if not an alarm bell, for the EU and its member states.

The flawed construction and policy practice of the EU has failed to meet the needs and aspirations of citizens. It is time for correctives.

Similarly, governments in member states must recognize that macroeconomic policies that focus on inflation at the expense of unemployment, combined with progressive dilution of social protection, are a solution that is worse than their problem. Such policies can only incur the wrath of citizens who wish to reclaim accountability from their governments.

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