Acta Oeconomica,Vol. 66 (S1), pp. 137–156 (2016)
DOI: 10.1556/032.2016.66.S1.8

BREXIT: REASONS AND CHALLENGES

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This paper reviews the deeper societal and economic reasons behind the British choice of leaving the European Union. We address the detailed results of the referendum and the long-standing sceptical British attitude towards European integration; next, we analyse the net budgetary contribution that changed enormously after the Eastern Enlargement. It is argued that the rise in the immigrant-native ratio had a significant impact on employee's pay level in certain areas, therefore pro-Brexit campaigners highlighted migration as one of the major problems arising from EU membership. Increasing income and wealth inequalities and a growing anti-elite sentiment in British society, coupled with the negative image of Brussels bureaucrats and a British approach to the rule of law that is fundamentally different from the continental one, also contributed to the final result of the referendum. Our analysis ends with a glimpse into the close future, emphasising that the future of British-EU relations depends wholly on the pragmatism and wisdom of the negotiating parties.

Keywords: Brexit, UK, European integration, EU budget, immigration

JEL classification indices: F15, F36, J61

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1. REFERENDUM

The advisory referendum on the United Kingdom's EU membership, was attended by over 33.5 million people, a turnout of 72.2% up from 66.4% at last year's general election. 17.41 million people supported Brexit and 16.14 million opposed it – which means that 51.9% of the voters (*vs*. 48.1%) rejected EU membership. The four regions making up the United Kingdom voted as follows: in England, representing 84% of Britain's population, as well as in Wales, the majority chose to leave (53.4 and 52.5% of the votes); while in Scotland and Northern Ireland 62.0% and 55.8% of the voters chose to stay in the European integration. The turnout rates of the above-mentioned regions were 73.0%, 71.7%, 67.2%, and 62.7%, respectively (BBC 2016).

Although the referendum had only advisory status (i.e. it is not legally binding), its result is taken most seriously by national authorities and institutions both in the UK and abroad – and all act accordingly. Therefore, a second vote is highly unlikely, just like in Scotland (and Northern Ireland), who would prefer to somehow keep their EU membership if Britain leaves. Since several member states worry about secessionist trends (e.g. Spain), they are not likely to encourage or agree to the precedent of a swift accession of successor states to the EU in case the United Kingdom disintegrates.

As for the structure of votes cast – that is, who voted yes and who voted no – the only credible source is that of geographical data. The reason is that no public service broadcaster (e.g. BBC, ITV, SKY) carried out a comprehensive exit poll (a poll of voters taken immediately after they have exited the polling stations) – even though this is a common practice after general elections.[1] Therefore, exit polls commissioned by private entities (e.g. banks) are not representative, and assumptions based on them lack professional reliability, as do conclusions drawn from these non-representative exit polls (pl. McGill 2016) and published on social and mass media sites as if rural, elderly, and relatively less qualified voters were to blame for Brexit.

However, we can draw at least two conclusions based on the geographical data. The first, that in London and in more prosperous, larger cities such as Liverpool, Manchester, Edinburgh, Glasgow, Belfast, and in some education/research centres profiting from their international character (Oxford, Cambridge) as well as in nearby areas, the majority of voters stood by Remain. Nevertheless, urban-

[1] The reason: no exit polls were carried out after a referendum held on a similar question 41 years earlier; therefore, there was no baseline against which to measure how people had voted this time. Without that, it would have been a hard and expensive task to define a polling station sample representing the entire country.

ism in itself was no guarantee for backing integration – in regions hit by de-industrialisation (Birmingham, Sheffield), results were the opposite.

The second, that traditional opposition against the economic, political, and cultural dominance of England persists. Scotland's entire history is about this opposition, thus it came as no surprise that 62% of Scots preferred remaining part of the EU. In Northern Ireland, where 55.8% voted for Remain, this ratio was even higher in areas dominated by Catholics. In Wales, where 52% voted for Brexit, in some western regions where the majority of the population still knows and speaks Welsh, Remain voters outnumbered those opposing integration.

2. BACKGROUND

British EU phobia is practically as old as their membership – or, to be precise, as the negotiations clarifying accession conditions – and is rooted in the historical tradition of the *divide et impera* principle applied to British European politics. Organising a referendum on whether to exit or remain a member of the then European Economic Community already in 1975, a mere two years after Britain's accession, says a lot about its attitude. That referendum (and the renegotiation of the terms of entry) was promised by the Labour Party, due to their fear that adopting a protectionist common agricultural policy (CAP) would lead to growing food prices (they were right as it later turned out) and that limited economic sovereignty would prevent them from initiating a socialist style voluntarist industrial policy. Finally, two-thirds of voters chose to remain part of the common European project at the time (Perisic 2010).

When looking for the origins of the difficulties related to European integration, one must bear in mind that the UK was not a founding member. When it entered, European integration already had its own institutional arrangement, several common policies, e.g. common commercial and agricultural policies, the regulations of which had been elaborated and codified ignoring British interests completely. It soon became clear that the country could only continue its membership if granted special, exceptional rights in several areas. Accordingly, although the United Kingdom is not the only country where EU legislation applies selectively, with *opt-out rights* (i.e. opting for not taking part) in four key areas, it is the member state with the most exemptions in the EU28.

First of all, the UK does not take part in the third phase of the economic and monetary union. Therefore, most monetary policy decrees arising from EU contracts as well as several economic and budgetary rules do not apply in it. As stated in the 15th Protocol of the consolidated version of the Treaty on the Functioning of the European Union, London cannot be obliged to and does not make commitments to introduce the euro (EUR-LEX 2016). It has its own monetary policy defined by the Bank of England. Although the UK takes part in procedures to harmonise and supervise economic and budgetary policies (e.g. Stability and Growth Pact or European Semester), it does so with significantly lighter conditions than other member states do, as coercive mechanisms and sanctions do not apply in case it breaches these procedures. Accordingly, the UK does not have to avoid, but only "shall endeavour to avoid" extreme budgetary deficit. As the country was not restricted by European Central Bank and European System of Central Banks decisions, it could, following the 2008 crisis, introduce quantitative easing much earlier than euro zone members.

The other side of the coin is that the United Kingdom (at least directly) has no say in euro zone matters, and has no right to participate in the appointment of the European Central Bank's management body, which makes it relatively isolated in the EU and increases the risk of it missing out on key decisions related to the future of integration. It is to be mentioned here that London has not signed economic governance strengthening documents of great importance in recent years, like the Fiscal Pact, or agreements on the European stability mechanism, or the Single Resolution Mechanism, a key element of Europe's banking union.

The second key opt-out relates to the Schengen Cooperation, enabling citizens of the participating countries to cross internal borders without being subjected to checks and formalities, and applying common rules at the area's external borders (e.g. common visa policy). At the same time, the whole area of the British Isles (UK, Ireland, the Isle of Man, and the Channel Islands) belongs to the so-called Common Travel Area where member countries' citizens can move freely with minimal requirements regarding official documents (i.e. without passport or visa, and in the absence of a formal ID card, even a driver's licence may suffice) (CI 2016). This means that the UK and Ireland, the two EU members not taking part in the Schengen Cooperation, run their own mini-Schengen.

The third opt-out worth mentioning here is the EU Charter of Fundamental Rights that the United Kingdom did not originally sign due to its incompatibility with British labour law. When the Charter became part of the Treaty of Lisbon, a special protocol (Protocol No. 30) had to be annexed stating that the Court of Justice of the European Union cannot deem British laws (regulations or administrative provisions, practices or action) inconsistent with the fundamental rights, freedoms, and principles specified in the Charter – in particular concerning labour, family, health, environment, and consumer protection issues as defined under the Title IV (Solidarity) (Foreign and Commonwealth Office London 2016: 310–311).

Finally, the fourth opt-out concerns justice and home affairs of the Treaty of Lisbon. According to the relevant protocol, the United Kingdom is free to choose to participate in justice and home affairs cooperation on a case-by-case basis.

Opt-out is not final, since the country can change its mind and opt back in at any time, but in case it decides to cooperate, it cannot opt out again (Ibid: 292–295).

Originally, there was a fifth opt-out too, since the British government refused to sign the social chapter of the 1992 Maastricht Treaty, covering such areas as worker's pay, health, and safety. However, following the landslide victory of the Labour Party in 1997, Prime Minister Tony Blair abolished this opt-out immediately after coming to power.

Furthermore, in addition to the above-mentioned opt-outs, there were two more areas, the EU budget and the free movement of workers, which – despite all the negotiated exemptions and benefits for the UK – inevitably appeared as drawbacks of EU membership during the Brexit campaign.

3. NET BUDGETARY CONTRIBUTION

As already mentioned on the eve of British accession the Labour leadership had promised that, if returned to office at the 1974 general elections, they would renegotiate the British terms of entry secured by the Conservatives. The renegotiation took place as early as during the 1974 December summit in Paris, and the Labour cabinet achieved results in two main areas. First, with effect from January 1, 1975, the European Regional Development Fund, designed to correct regional imbalances resulting from agricultural predominance, industrial change, and structural under-employment, was set up for overtly political reasons; its resources were divided in a way that the UK received above average transfers in the first years (European Communities 1974: 10). Second, a principle was adopted whereby European institutions were obliged to find a fair solution, i.e. elaborate a generally applicable criteria-based correction mechanism, in case an "unacceptable" situation would arise when formulating the common budget.

Those results were then relativised by history: by the time the Regional Fund's budget gained importance, regions far more underdeveloped than those of the United Kingdom qualified for most of its resources due to the Mediterranean (and later on Eastern) enlargement. The general correction mechanism also failed to materialise.[2]

[2] There were two attempts to introduce a general correction mechanism. The first one (the mechanism of dynamic brakes) was formally in force (1976–1980), but did not operate in practice because the three conditions (GDP per capita lower than 85%, rate of economic growth less than 120% of the Community average, and share in the common budget more than 10% higher than share in Community GDP) necessary for its initiation were never met at the same time in one member country (EC 1998). The other attempt or system, GCM (generalised correction mechanism) suggested by the Commission, would have resulted in Member States

Britain's excessive net contribution to the EU budget was (and is still) caused by two factors: the country received too little sources from the common funds, and had to contribute too much to them. This situation was due to the fact that the founding members decided upon the structure of the common budget several years before the British accession. On the expenditure side, agricultural policy dominated – which, considering their 60–70% self-sufficiency in food, made the British to start from an already compromised position. The revenue side was first made up of mostly customs and agricultural levies, and then, from the end of the 1970s, the VAT-based resource gradually became predominant. Surely, the UK, having traditionally strong trade links outside the EU, used to pay more or less the same amount of customs to the common budget as Germany did, and twice as much as France did, considering that in terms of imports, Germany used to be a one and a half times more important trader, while France a trader of similar magnitude. The problem with the VAT-based source was different: the tax base represented a larger part of GNP in Britain than in other, more prosperous member states.[3] In order to mitigate its budgetary problems, the UK received annual compensation from 1980 onward, the sum of which was determined as a result of a long-lasting bargaining process (European Communities 1980). A final solution was agreed upon at the 1984 Fontainebleau summit where the British delegation, led by Margaret Thatcher, was granted a regular budgetary correction *(rebate)* based on a special formula on an exclusive basis to the UK (European Council 1985). From 1986 onwards, the United Kingdom became entitled to be reimbursed, by way of a reduction in its VAT-based payments, 66% of the difference between its share in VAT-bases and its share in total allocated expenditure, applied to total allocated expenditure (European Commission (EC) 2008). Furthermore, demonstrating the success of British diplomacy, the British rebate became part of the so-called ORS (Own Resources System), ensuring the revenue side of the common European budget. As, by virtue of Article 311 of the Treaty, any changes made to this system require the unequivocal consent of all member states and the EP has merely a consultative power in the issue, the British were given veto power regarding their own correction mechanism.

being entitled to a rebate, which is triggered when their contribution to the EU budget reaches a threshold of 0.35% of GNI. The refund would have been in form of a 66% abatement of the Member State's net contribution above the threshold. This system has never even been introduced formally since it would have made little difference to most members, but it would have worsened British positions a lot (EC 2004).

3 VAT contributions are generally considered to be regressive (i.e. not good indicators of Member States' ability to pay), as the VAT base tends to represent a higher percentage of GNP/GNI in poorer than in richer EU members (EC 1998b).

The original sum of the British rebate was always corrected later on – reflecting changes in the ORS. The principle was to neutralise all positive or negative changes affecting the UK's financial position.

The rebate worked without problems for *cca*. 10 years, then, from the second half of the 1990s, circumstances and conditions that led to its elaboration started to change. On the one hand, the role of agricultural policy in the common budget decreased, and due to its successive reforms, British farmers received larger sums than before anyway. On the other hand, thanks to the outstanding economic growth of the two decades following 1985 (at least when compared to other European countries), by the early 2000s, the British outstripped all their important European partners in terms of GDP (at purchasing power parity) per capita (Knoema 2016), which obviously affected their contributive capacity in a positive way. These changes were increasingly reflected in an improvement of the British net position within the common budget (EC 2002).[4]

Since the British were not willing to give up on the rebate, the other member states could only "compensate for the damage" by redistributing the financial burden among themselves, and by the first decade of the 21st century, considering the older, better off members of the EU, the United Kingdom bore a disproportionately low budgetary burden compared to its economic performance (*Figure 1*).

This relatively favourable situation for the British was upset by the Eastern Enlargement, which in itself – based on EU money to be spent on new member states, hence to be taken into account when calculating the correction – would have automatically and significantly increased the amount of British rebate. London simply could not get away politically with making new members pay for part of its increased rebate, while not taking its due part in funding the catching up process of these very same countries to European standards. Finally, at the December 2005 summit, closing the multiannual financial framework (MFF) negotiations at the time, the Blair cabinet agreed to exclude from the calculation most enlargement-related expenditure (with the notable exception of CAP direct payments, market-related expenditure, and part of rural development funds), so as to share the burden of the Eastern Enlargement by ceding (with a progressive phasing-in of the change from 2009 onwards) €10.5 billion from its rebate of the 2007–2013 period (European Council 2005).

The effect of partial renouncement on rebate became manifest from 2010 onward. *Figure 1* shows that regarding its operative balance, the United Kingdom

4 In the period of 2001–2008, the UK was second (after Finland) among the 11 richer (i.e. no cohesion) countries of the EU15, to contribute the least to the common budget in terms of average net operating balance.

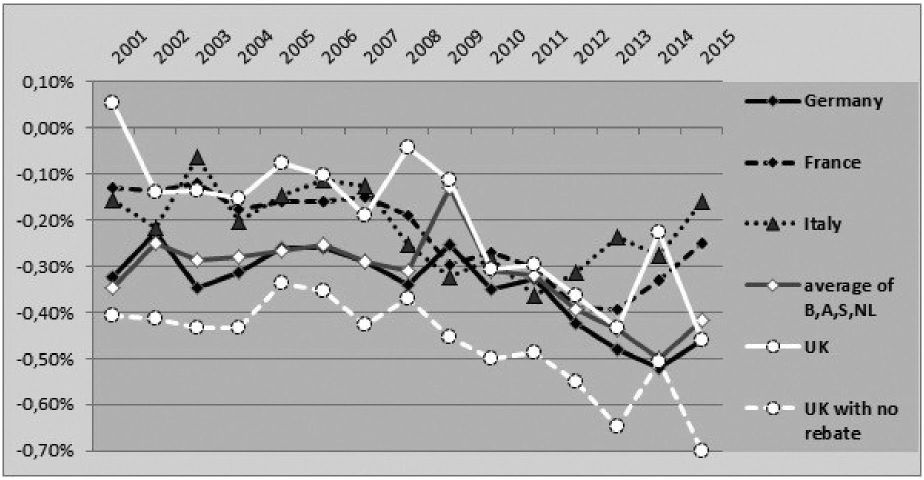

Figure 1. Largest net contributors to the EU budget: Operating budgetary balances – excluding administrative expenditure and TOR, and including UK correction (% GNI)

TOR = Traditional own resources (duties, sugar levies). Operating budgetary balance for a given MS = difference between allocated operating expenditure (i.e. excluding administration), and own resources payments (excluding TOR). B, A, S, NL = Belgium, Austria, Sweden, The Netherlands.

Source: EC (2016).

reached the average level of partner countries within a couple of years, and integrated swiftly into the group of average net contributors. On the mathematical level, comparing data for 2004–2009 and 2010–2015, this means that a deterioration of approximately €5 billion took place in the British net budgetary position due to the Eastern Enlargement. The British (together with France) became the second-third most important net contributors of the EU (second with a great difference if we take into account the customs payments) after Germany (EC 2016).

Figure 1 also reveals that without rebate, the UK's net contribution as a percentage of gross national income would be twice of France's (i.e. a comparably wealthy country) and 1.5 times higher than Germany's, hence Britain would be by far the biggest net payer to the EU budget. In the light of the above, it is not surprising that the question of making further cuts to the rebate was not even raised at the subsequent 2014–2020 MFF negotiations. At the end of the latter event, overshadowed by the global crisis, the European leaders agreed to an unprecedented real-terms cut in the budget payment limit for the seven-year period of 2014–2020, which means that for the first time in the history of medium-term financial planning, introduced in 1988, there has been a reduction in spending vis-à-vis the previous MFF. The British government literally celebrated the MFF agreement; beyond protecting the remnants of the rebate and reducing the overall budget ceilings, the UK delegation also managed to bring changes in MFF expenditure structure in line with the British interests. Based on these achievements, between 2014 and 2020, sources of those budgetary headings will decrease, e.g. cohesion (–8.4%), common agricultural policy market pillar (–17.5%), in which the UK usually has a relatively lower share, and funds for those headings will increase, like competitiveness (+37.3%) and research and development (+40%), from which British firms and universities are particularly well placed to benefit. These changes prevent the further deterioration of the British budgetary position, but we can only measure the rate of improvement post factum. The close-to-balance situation prevailing prior to the Eastern Enlargement will certainly not return (European Council 2013).

One must note that the British attitude to MFF, the determination to fight for decreasing the budget, and the widely mediatised daily criticism against Brussels post-Brexit seem to have been too "successful". The presentation of the tasks of European institutions and the opulent wages – e.g. that numerous Brussels bureaucrats have higher net incomes than the British Prime Minister – resulted in an extremely negative public image of the European Union (e.g. Waterfield 2014).[5] As if they were trying to prove to British citizens that a large part of their ever-increasing contribution is being used prodigally. This disadvantageous image of the Brussels elite was reinforced by the British claim on reforming the Union that was constantly present during the Cameron era. Cameron's team also floated the idea that in case no reform takes place, the Prime Minister will campaign for Brexit. At the very least, communicating integration problems this way backfired on Great Britain's political leadership.

4. IMMIGRATION

The other key element of the Brexit campaign was immigration. The effects of inward and outward migration flows more or less offset each other in the United Kingdom during most of the 20th century. From the 1960s to the early 1990s, outward flows were often greater than inward ones. Since 1994, however, the number of people migrating to the UK has constantly surpassed that of emigrants, and from 1998 onward, immigration has in each year exceeded emigration by more than one hundred thousand (Hawkins 2016).

Immigration gained further momentum after the 2004 Enlargement. The United Kingdom (together with Sweden and Ireland) was among the few old member states to open their labour market without restrictions to new member countries'

[5] Stating that more than one in five EU officials earn above the UK PM's salary.

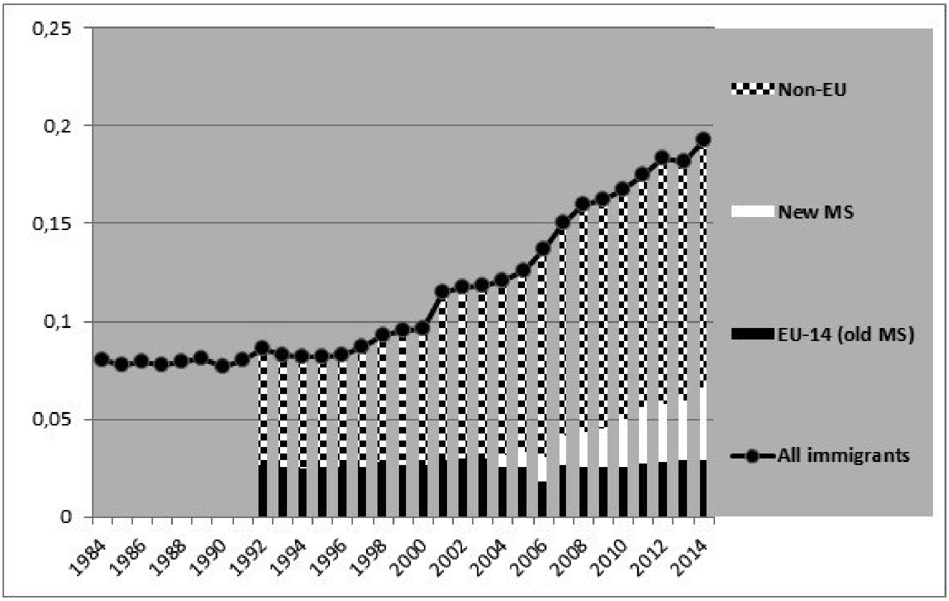

Figure 2. Immigrant native ratio and composition of immigrants by region of origin in UK

Note: In the period of 2011–2015, among the top 6 countries of origin for EU migrants we find Poland with 818,000 persons in 2015 (a change of +203,000 since 2011), Romania with 223,000 (+136,000), Spain with 137,000 (+74,000), Italy with 176,000 (+50,000), Hungary with 96,000 (+46,000), and Portugal with 140,000 (+44,000) (The Migration Observatory 2016).

Source: Nickell – Saleheen (2015).

workers. (*Nota bene*: in 2007, when Romania and Bulgaria joined the Union, the UK changed its approach and opted for delaying labour market access of nationals from these two countries until 2014.) Net immigration reaches 200 thousand regularly every year since 2004, and since December 2014 – based on data of the last twelve months – it amounts to an annual 300 thousand (Hawkins 2016: 9–10).

Accelerated immigration increased the so-called immigrant-native ratio. This ratio measures the number of 16–64 year olds (i.e. the working age population) born outside the UK divided by the number born in the UK. The ratio was stable at around 8% between 1984 and 1995; it grew sharply since then and rose to nearly 20% by December 2014, indicating that nowadays every sixth potential employee is a foreigner (*Figure 2*).[6]

[6] There are several definitions for the term “migrant”. He or she can be someone whose country of birth or nationality is different from his or her country of residence. While the immigrant-native ratio, which refers to those born outside the UK, rose close to 20% by the end of 2014,

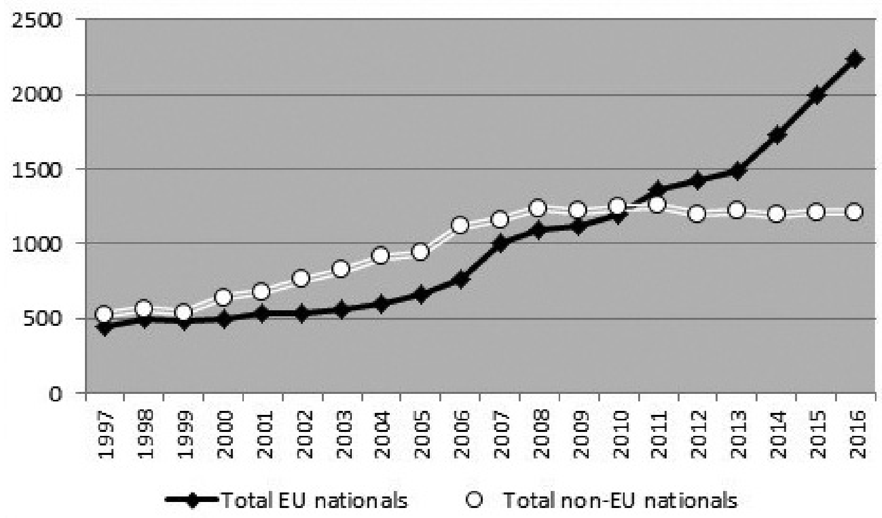

Figure 3. Non-UK nationals working in the UK (thousands)

Notes: All data refers to the period of April to June of each year. As for the year ending June 2016, among the top 5 EU nationalities asking for National Insurance Number (NINo) registrations, we find Romanians (185,000), Poles (105,000), Italians (59,000), Spaniards (48,000), and Bulgarians (40,000). Out of all NINo registrations 23,4% were non-EU origin, 27.8% from the old member states, 27.2% from Romania and Bulgaria and 21.1% from the countries becoming EU members with the 2004 enlargement.

Source: UK Labour Market 2016: 13.

As of today, politics has been unable to curb immigration, especially the inflow of those coming from EU member states in search of work (*Figure 3*). Cameron himself failed to keep his 2010 election promise of reducing the number of immigrants to a few tens of thousands per annum. During the 2015 election campaign, he reinforced his promise by pledging to reduce net migration into Britain to below 100,000 (e.g. through radical measures against illegal immigration and by delaying eligibility to housing and other welfare benefits or even levying, in the case of non-EU immigrants, a charge for their use of the NHS services), but failed again (Chorley 2015; Conservative Party Manifesto 2015). Immigration has, by its sheer size, placed considerable strain on the country's infrastructure,[7] having a significant impact on a range of public services, "from queue for social

the proportion of non-UK nationals working in the UK increased from 3.7% to 10.9% between 1997 and 2016. The difference in the order of magnitude comes mainly from the fact that the estimates for people born abroad but working in the UK include many UK nationals (Office for National Statistics 2016).

7 According to a Home Office analysis, each immigrant costs UK taxpayers up to £8,350 a year in healthcare, education, and benefits bills (The Telegraph 2013).

housing … to hospital, maternity and GP services as well as education, public transport, the environment and the general transport infrastructure" (Migration Watch 2016).

The Bank of England published an analysis in December 2015, proving that the rise of the immigrant-native ratio in a given region has a significant small impact on employees' pay level. This effect is the biggest in the semi/unskilled services where a 10 percentage point rise of the ratio is associated with a 2% reduction in wages (Nickell – Saleheen 2015). Moreover, the ratio stands at 10–15% in all important sectors of the economy, reaching even higher levels in some sectors or professions: e.g. in health services, work of process operatives, and elementary services it hits 25–30%, while in textile and printing trades and elementary trades it reaches a stunning 35–45%. The immigrant-native ratio is also high for professional workers; nowadays, every fifth highly-qualified employee (e.g. engineers) is a foreigner.

Immigration has been growing across all occupations, but the lower the skills, the sharper the rise. To give a typical illustration, between mid-1990s and mid-2010s, the immigrant − native ratio grew by 6 percentage points for managers and by 28 for elementary jobs. While in the early 1990s, the pattern of immigration across occupations took a shallow U-shape, as the number of highly qualified and unskilled foreign employees exceeded those in middle skilled occupations, in more recent years the pattern tends to be higher in lower-skilled jobs (Ibid: 9–10).

And this brings us closer to the core of the problem caused by the new trends in immigration. While between 1993 and 2005, median hourly earnings of UK natives and EU-born migrants were completely overlapping, after 2005, the two curves started to diverge sharply and a *cca*. 15–20% wide scissors opened, indicating clearly higher wages for British natives (*Figure 2* in: Nickell – Saleheen 2015:7). This break in the trend of EU-born migrants' earnings was due to the massive inflow of people from new member states with significantly lower wage levels than in the EU15. The Eastern Enlargement has largely added to the number of those low-skilled, low-waged workers whose bulk had arrived earlier to the UK from the Indian subcontinent. The 8 countries that gained EU membership in 2004 (i.e. new member states minus Malta and Cyprus) received the same weekly earnings in the UK in 2008 as migrants from Pakistan or Bangladesh (Office for National Statistics 2008: 3). Mass migration from new member states has not only had a small negative impact on average wages, but has also certainly (regionally and depending on occupational groups) displaced local nationals from their jobs. They were replaced by Eastern European migrants willing to work either for lower pay or under inferior conditions than British natives (Conway 2014: 70).

Although at the beginning, pro-Brexit campaigners concentrated on issues of economic sovereignty rather than migration, by the end of the campaign, migration became such an overwhelming problem that they could not let the opportunity slip away by not addressing the issue.

5. FURTHER CONSIDERATIONS

We could add a long list of problems contributing to Brexit, but we must not forget three rather general factors associated with long-term trends that were reinforced in the aftermath of the global financial crisis. While the first two factors relate to the British elite's way of thinking about sovereignty and constitutional arrangements, the third one is associated with the mounting discontent of large social strata over increasing income and wealth inequalities.

Let us start with the first factor. As the European Union has always been more than a group of cooperating countries, its members pooling a significant part of their sovereignty into supranational institutions, the British were only interested in membership until a certain balance of power could be maintained, with Paris and Bonn/Berlin being the main engines of the integration and London playing its traditional role to keep these powers balanced.

The first rupture in this balance took place when the two parts of Germany reunited at the end of the 1980s. Germany became by far the largest economic power within the EU. Also, the monetary union had been accomplished on German terms, with the European Central Bank (ECB) having its headquarters in Frankfurt and price stability as its central goal. Thanks to the economic reforms consisting of a radical reshaping of the welfare state and reducing labour costs during Schröder's second term between 2002 and 2005 (i.e. just in time to "be ready" before crisis), Germany emerged from the global crisis even stronger and the balance of power between Paris and Berlin seems to have been lost for long. As responses to the euro zone crisis were designed to fit into German economic policy standards (closer union, more austerity), Britain started to face increasing pressure either to join the euro zone dominated by Germany to be able to influence more decisions or leave the EU completely (Conway 2014). A significant part of the British elite viscerally rejects the vision of such extreme pooling of sovereignty, especially if it means "being bossed by" Germans dominating the integration (Lawson 1990).[8]

[8] One can illustrate this by the saying of a late Conservative Party politician, Nicholas Ridley: "When it comes to apply more squeeze to the economy or let it up a bit, it is about political accountability… and being bossed by a German would cause absolute mayhem in the UK" (quoted in Lawson 1990: 9).

The second general factor leading to Brexit finds its roots in British political culture, whose fundamental principle has, since the Civil War, been the repudiation of absolutism; absolutism in the sense of ruling by decree, i.e. with the sovereign decreeing the law without having to discuss it with Parliament. The British approach to the rule of law conflicts with the continental tradition, in which the executive power is expected to issue legally binding decrees, creating subordinate legislation. The latter system of exercising administrative power – i.e. the practice of compelling lower-ranking bureaucrats to benefit or disadvantage individuals, without the authorities being obliged to give explanation – opens the door to cronyism and contradicts British common law notions of procedural fairness. While the law-making activities of the Commission are viewed with distrust in Britain, continental Europeans view them as nothing more than an extension of the normal doings performed by national bureaucrats to the community level. A final and irrevocable integration of the UK into a unified Europe would certainly require substituting the British concept of rule of law for continental administrative law tradition. The British people's adherence to the tradition of democratic accountability was probably the most important argument against the maintenance of membership in an ever more integrated EU (James 2016).

The third general factor behind Brexit vote stems from the increase of income and wealth inequality. The British economy fares well – at least compared to the majority of the developed market economies – in vain if millions of citizens do not perceive it. Although technological development pervades the entire society – and even beggars can have a mobile phone – but the trickle-down effect has not kicked in: rich people get richer and the situation of the poor is not necessarily improving. Politicians praise the benefits of European integration, but to no avail to the masses of the unemployed, marginalised from the job market (i.e. being locked into flexible and/or precarious employment) (Loveridge – Mok 1979; Sirovátka 1997) and excluded from social benefits for different reasons.

The way developed countries' governments handled the global financial crisis – that is, instead of those responsible, placing the burden of consequences on society as a whole – has not only further increased income, wealth (and opportunity) inequalities, but has led to widespread anti-elite sentiments too. We can rightfully assume that when 51.9% of the population voted for Brexit, they did not say no to the EU membership of their country in the first place, but expressed their anger and desperation over their constantly deteriorating situation and concern over their children facing a future with even worse prospects. The referendum results should warn decision-makers to take urgent steps in order to ensure that the benefits of future growth are enjoyed by all (Pisani et al. 2016: 2).

6. WHAT DOES THE FUTURE BRING?

The least we can say is that there is a huge amount of uncertainty regarding the consequences of Brexit. However, if there is something the business world cannot really stand is uncertainty: concerning both the future relationship with the EU and the journey to get there. So, it is little wonder that in order to reassure both the business world and the public, PM Cameron hurried to give a statement in the House of Commons only four days after the vote. In his speech, he described the UK as being one of the strongest among major advanced economies, with low, stable inflation, highest ever rate of employment, and budget deficit forecast to be below 3% in 2016. He also emphasised that the financial system was, as for the banks' stress tests, substantially more resilient than half a dozen years earlier, with capital requirements 10 times higher than before the crisis, and the Bank of England standing ready to provide more than £250 billion of additional funds to support banks and markets (PM statement 2016).

As far as the relation between the UK and the EU is concerned, nothing has changed for the time being. Not the slightest limitations have been placed on any of the four freedoms, i.e. the free movement of goods, services, capitals, and persons. Foreigners working and studying in the country, just like British citizens living in other EU member states, can continue studying, working, and spending their pensioner years in the chosen EU country as before. Equally, London is obliged to continue paying its budgetary contribution to the common budget. Largely: as long as exit negotiations are ongoing, rights and obligations arising from EU membership remain in effect.

As for the technicalities of the withdrawal procedure, by invoking Article 50 of the Treaty, the UK will have to notify the European Council of its intention to leave. Although there is no set timeframe for when it has to do so, the notification is likely to be announced by the end of the first semester of 2017.[9] The negotiation period lasts two years counting from the formal notification and can only be extended by a unanimous decision of all the other 27 EU countries. The aim of the negotiations is to conclude a withdrawal agreement, containing detailed withdrawal arrangements and transition provisions considering the framework for the UK's future relationship with the EU, to be adopted by the Council by qualified majority after obtaining the consent of the European Parliament (Miller – Lang 2016: 4). If there is no agreement, WTO rules on most-favoured-nation status

[9] Eager to avoid a lengthy period of uncertainty and a domino effect among other Eurosceptic member states, the EU27 want the UK out before the up-coming EP elections in June 2019, and before talks on the next MFF get underway (the current EU budget cycle ending in 2020) (Grant 2016).

will apply to UK goods and services sold within the Single Market and vice versa (Davis 2016).

In spite of the fact that only a few months have passed since the Brexit vote, a multitude of recent papers have been devoted to finding out which model (e.g. Norwegian, Swiss, or Canadian model) of partnership between the UK and the EU would be most suitable for either or both sides.[10] If none of the existing models are convenient, it is because none of them are able to tackle the UK's dilemma of how to retain untrammelled access to the Single Market – from the "passporting rights"[11] for the financial services to the technical specifications of mechanical goods – while restricting the number of European migrant workers as well as considerably reducing contribution to the EU budget.

Of course, all guesswork is meaningless regarding the nature of future British-EU relations since those will be defined during negotiations. And it should not be forgotten that the negotiating position of the British government is still far from being moulded. In late September 2016, the Department for Exiting the European Union was still actively is about to recruiting its staff in order to prepare for organising round tables and bilateral discussions with key stakeholders in *cca*. 50 different sectors, with the aim of asking data and submissions from them. At the end of the process, on the basis of sectoral assessments, a global strategy will be prepared (Davis 2016).

What the negotiators of both sides must not forget is that a good deal of pragmatism and wisdom could save a lot of suffering and disruption. The tight 4 percent Brexit vantage of the referendum does not entitle the British government to

[10] One of the most interesting papers, written by five authors (Pisani et al. 2016), proposes a new form of relationship (called "continental partnership" or CP), less deep than membership, but closer than a simple FTA, which would consist of participating in goods/services/capital and also some temporary labour mobility, as well as of a new intergovernmental decision-making system, and would involve some contribution to the EU budget and a close cooperation on foreign policy, security, and defence. In such a partnership, the UK would have a say on EU policies, but ultimate authority would formally remain with the EU. Resulting in a Europe with an inner circle of deeply integrated countries and an outer one with less integration, the CP also could, in the long run, be an attractive model for Switzerland (she too wishing to limit free movement) and serve as a solution for structuring relations with Turkey, Ukraine, and other countries (*ibid*: 1, 6–9).

[11] Passports covering a wide range of activities (including retail banking, insurance, and investment services) allow companies licenced in one EU member state to provide financial services across the EU. Although there are more companies relying on passporting to do business in the UK than the other way round, which would have us believe that the EU has as much to lose from restricting UK access to the Single Market as the UK does, the total number of passports held by UK companies (allowing them to do business in all EEA countries) exceeds over 14-fold the number of passports held by European businesses (allowing them to do business only in Britain) (Arnold 2016).

ignore all results achieved in the EU, and it is not in the interest of the EU either to move negotiations in that direction. The UK runs a trade deficit in goods and a trade surplus in services with the European Union, with the surplus in the trade in services not making up for the trade deficit in goods, meaning that for the EU, the United Kingdom is a more important market than the other way around. In 2014, UK trade deficit with EU member states was largest with Germany (£28bn), but also significant (£6–9bn) with France, Belgium/Luxemburg, Spain, and Italy (UK Perspectives 2016). So, in case of these countries, threatening to punish some elements of British industry would entail threatening their own industries. On the other hand, concerning the financial services, an early consensus was forming recently around a figure of about 20% (or £9bn) for the amount of investment banking and capital markets revenue that faces disruption in the worst case scenario (Arnold 2016).

7. CLOSING REMARKS

Brexit is the result of long-maturing processes of economic and social development reinforcing each other. A significant part of the British elite – raised on imperial tradition with a global mindset and with attitudes deeply rooted in their specific political culture – could never embrace European integration wholeheartedly, or confine their ambitions to the pursuit of regional interests. The British have always been leading advocates of free trade; in case the European cooperation exceeded this level, they either skipped it (euro zone, Schengen) or tried to slow it down. The sharp (and often legitimate) criticism voiced by British leaders against Brussels bureaucracy found a receptive audience in various strata of society.

Meanwhile, globalisation reached the average British citizens: in line with contemporary economics principles, the production of goods they consumed shifted to a foreign country if manufacturing was cheaper there, and if they complained about it or did not want to take low-paid jobs, they were easy to replace with someone from abroad. The free outward movement of capital and inward movement of labour both hit the average British citizens. The negative effects of growing income and wealth inequalities were then reinforced by the successive waves of the Eastern Enlargement and the global financial crisis. As all these processes and attempts to resolve the accompanying problems (e.g. by austerity measures) seriously affected average people's life, the appeal for political populism inevitably strengthened.

The referendum on EU membership was far from the mere technical issue of whether staying or leaving the integration – to most British citizens it was a desperate and legitimate answer to British and European (especially Brussels) elite politics that had discredited themselves. Will the elite learn from the result, will they reach a reasonable conclusion? If so, then exit negotiations might well result in a compromise acceptable for both parties, and neither the British economy, nor the European integration should suffer negative consequences due to Brexit.

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