

Spring 2020

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Recommended Citation

Thomas Bishop, *Brexit: How Did We Get Here, and Where Do We Go From Here?*, 25 Pub. Interest L. Rptr. 95 ().

Available at: <https://lawcommons.luc.edu/pilr/vol25/iss2/4>

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Brexit: How Did We Get Here, and Where Do We Go From Here?

Thomas Bishop

On June, 23, 2016, the citizens of the United Kingdom (U.K.) voted to leave the European Union (EU).¹ The British voters, throughout England, Scotland, Wales, and Northern Ireland cumulatively voted 52% in favor of leaving the economic institution, with 48% voting to remain.² This result was a shock to many, including the Prime Minister David Cameron.³ Despite first alluding to a “remain” or “leave” referendum in 2012, Prime Minister Cameron was still actively working toward improving the U.K.’s relationship with the EU.⁴ Yet, due to Cameron’s own Conservative Party winning a government majority in the 2015 elections, the majority of Parliament then decided to let the populace decide Brexit with the referendum.⁵ Even with all of long-term animosity within the U.K, leaving the EU was not an inevitability.⁶ Had David Cameron not held the referendum, it is quite likely the leave sentiments would have subsided over time.⁷ After the votes were cast, one of the largest economies in Europe was severed from the EU, the U.K. had a new Prime Minister, and the trajectory of the global economy faced a more uncertain route.⁸ Such a momentous historical occasion begs the world to ask, how did Brexit come about, and where will the U.K. and its allies go from here?

CAUSES LEADING UP TO THE REFERENDUM

Although the Brexit referendum is a fairly recent phenomenon, anti-EU sentiment pervaded throughout the British population since its inclusion into

¹ Phoebe Cooke and Les Steed, *BREXTRA TIME Brexit Timeline – From the Referendum to the New Deadline Date*, THE SUN (Jan. 12, 2020), <https://www.thesun.co.uk/news/10068705/brexit-timeline-january-31/>.

² *EU Referendum Results*, BBC, https://www.bbc.com/news/politics/eu_referendum/results.

³ Telephone Interview with Alan R. Gitelson, Professor Emeritus in American Politics at Loyola University Chicago, (Feb. 24, 2020).

⁴ Phil Haigh, *Why did David Cameron call a referendum on Brexit?*, METRO, <https://metro.co.uk/2018/12/11/david-cameron-call-referendum-brexit-8231803/>.

⁵ *Id.*

⁶ Telephone interview with Alan R. Gitelson, *supra* note 3.

⁷ Telephone interview with Alan R. Gitelson, *supra* note 3.

⁸ Haigh, *supra* note 4.

the organization in the 1970's.⁹ So long as Britain remained a member of the EU, anti-membership sentiments had always measured between 30% to 60% among the public.¹⁰ Moreover, recent empirical measures of U.K. citizens' comparative national prioritization, mistrust in the EU, patterns of emigration, international trade flows, and foreign investment allocations indicate the British were near the bottom of European integration among EU nations.¹¹ This distinctly isolated national identity may have made separation from the EU more likely from the outset, only compounded by cumulating concerns within the British public leading up to the referendum.¹²

One potential concern leading up to the vote to leave the EU was globalization.¹³ Not only could globalization conceivably conflict with a more separatist Britain philosophically, but globalization also yields "winners" and "losers" as a result of its policies. Specifically, the larger British cities and trading hubs benefit while less populated areas are hindered.¹⁴ The losing groups may be compensated by a welfare system, which the British government had established.¹⁵ Yet, in 2010, the British government began instilling "austerity" measures, meaning welfare spending decreased by about 16% per capita.¹⁶ From 2010 until the referendum, constituents in rural areas, many of whom depended of welfare as a result of "losing" at the expense of globalization, nurtured populist sentiments in response to globalization and welfare cuts.¹⁷ Leading up to the referendum vote, these populist sentiments manifested in the increasing popularity of the U.K. Independence Party ("UKIP") in rural areas, and, of course, in the referendum results themselves.¹⁸

⁹ James Dennison and Noah Carl, *The Ultimate Causes of Brexit: History, Culture, and Geography*, BRITISH POLITICS AND POLICY AT LSE, p. 1-7 (2016).

¹⁰ *Id.*

¹¹ *Id.* at 6.

¹² *Id.*

¹³ Thimo Fetzer, *Did Austerity Cause Brexit?* p. 1-50 (Coventry: University of Warwick, Department of Economics, Warwick Economics Research Papers Series (WERPS), Working Paper No. 1170 (2018), available at <http://wrap.warwick.ac.uk/106313/7/WRAP-did-austerity-cause-Brexit-Fetzer-2018.pdf>).

¹⁴ *Id.*

¹⁵ *Id.*

¹⁶ *Id.*

¹⁷ *Id.*

¹⁸ *Id.*

While a populist reaction to globalization may have been a leading cause of Brexit, immigration is also an issue worth exploring.¹⁹ Since 2003, the U.K. has adopted full freedom of movement to all 2004 EU accession states.²⁰ A large majority of “leave” voters supported greater restrictions to immigration from other EU countries, even taking into account potentially detrimental consequences for Britain.²¹ In fact, at least 80% of Leave voters indicated that leaving the EU should also result in lower immigration into the U.K.²² Empirically, there is not much correlation between rising immigration rates and “leave” votes per geographic area.²³ However, a large homogenous immigration within a short period of time could have increased populist voting.²⁴ Yet, attitudes toward immigration actually worsened in areas with larger “import shock,” meaning foreign imports leading to elimination of domestic manufacturing in that area.²⁵ It is then surmised that anti-immigration sentiment was more of a byproduct of an adverse reaction toward globalization.²⁶ Once again, some analyses points toward “globalization without compensation” to the economically hindered resulted in a populist response to Brexit, with immigration perceptions dwindling in the process.²⁷

Another factor leading to British frustration was the Eurozone crisis, where Southern and Eastern European economies faltered after the 2008 financial crisis.²⁸ The delayed responses among the Western European economies soured perceptions of the EU’s practicality, both in Britain and in other European states.²⁹ Moreover, because Britain’s economy had somewhat recovered from the financial crisis, many Southern and Eastern European workers left their

¹⁹ Italo Colantone and Piero Stanig, *Global Competition and Brexit*, BAFFI CAREFIN Centre Research Paper No. 2016-44, [2, 2] (2016), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2870313.

²⁰ Alan Riley and Francis Ghilès, *Brexit: Causes and Consequences*, CIDOB (2016), available at https://www.cidob.org/publicaciones/serie_de_publicacion/notes_internacionales/n1_159/brexit_causes_and_consequences.

²¹ Colantone and Stanig, *supra* note 19, at 4.

²² *Id.*

²³ *Id.*

²⁴ Max Viskanec, *Fear and Loathing on the Campaign Trail: Did Immigration Cause Brexit?*, SCIENCESPO, No. 100, p. 1-29 (2020), available at <https://spire.sciencespo.fr/hdl:/2441/7qh1ffjmcs94eag0i47p8t150j/resources/wp-100-max-viskanec.pdf>.

²⁵ Colantone and Stanig, *supra* note 19, at 2.

²⁶ *Id.*

²⁷ *Id.*

²⁸ Riley and Ghiles, *supra* note 20.

²⁹ *Id.*

countries and flooded the U.K.'s workforce.³⁰ Furthermore, Chinese manufacturing has permeated the European marketplace, and the EU has been hesitant to confront China over potential World Trade Organization (WTO) trade violations, which allowed Chinese manufacturing to replace some of the British domestic manufacturing.³¹ After teetering on the edge for decades, the Eurozone crisis and failure to address the excessive intrusion of Chinese manufactured goods were frustrations that may have finally tipped the U.K. to vote Leave.³²

CONSEQUENCES FOR BRITAIN AND THE EU

While the causes leading up to Brexit could point to a specific set of factors, the economic consequences are full of more uncertainty.³³ In the short term, the macroeconomic status for Britain will be relatively unchanged.³⁴ Yet, in the long term, the U.K. may suffer much more deleterious consequences. Depending on the potential scenario, the U.K.'s real Gross Domestic Product (GDP) could fall by 0.5–1.4%, its consumption will fall by 0.5–1.3%, and trade flows with the remainder of the European Union will fall by 8–45%.³⁵ Because Brexit officially went into effect on January 31, 2020, export participation, trade flows, and macroeconomic variables should begin to decline towards their long-run predictive levels.³⁶

One facet of the British economy already suffering from Brexit is its currency, the pound sterling.³⁷ The U.K. kept use of the pound in lieu of the euro primarily due to an emotional tie to the spirit of the commonwealth.³⁸ The pound's exchange rate dropped significantly due to the referendum result.³⁹ The Pound's value remains at near record lows, despite higher strength of consumption since the passing of the referendum.⁴⁰ The Pound's fall is due to the foreign exchange market believing Brexit will, sooner or later, raise costs in the

³⁰ *Id.*

³¹ *Id.*

³² *Id.*

³³ Joseph B. Steinberg, *Brexit and the Macroeconomic Impact of Trade Policy Uncertainty*, 117(C) J. OF INT'L. ECONOMICS 175 (2018), available at 10.1016/j.jinteco.2019.01.009.

³⁴ *Id.*

³⁵ *Id.*

³⁶ *Id.*

³⁷ Ben Broadbent, *Brexit and the Pound*, Imperial College, London, p. 1-15 (2017), available at <https://www.bis.org/review/r170331a.pdf>.

³⁸ Telephone interview with Alan R. Gitelson, *supra* note 3.

³⁹ Broadbent, *supra* note 37, at 2.

⁴⁰ *Id.*

U.K.'s trading sector.⁴¹ Expecting potential tariffs or lower productivity growth for the U.K., the currency needs to be lower in order to compensate for the potential losses.⁴²

Going forward, the results of Brexit may be detrimental to the U.K.'s National Health Service (NHS).⁴³ The severity of the impact depends on whether there is a "No Deal" Brexit, where the U.K. and EU do not arrange a formal withdrawal agreement upon the separation.⁴⁴ With or without a deal, Brexit projects negatively on the NHS' ability to finance, as well as the government's ability to regulate.⁴⁵ A No-Deal Brexit could conceivably increase British autonomy and flexibility for health professional requirements.⁴⁶ Yet these benefits would be offset by a lower ability to recruit from outside the U.K., as well as lower patient confidence and safety.⁴⁷ Anticipating a No-Deal Brexit, the British government has already advised visitors to already be medically insured before arrival.⁴⁸ NHS financing potentially faces increased financing pressure as a result of any British economic downturn from Brexit.⁴⁹ Moreover, No-Deal effects on fruit and vegetable food supplies could lead to between 6,000 and 23,000 excess deaths from cardiovascular disease from 2021 to 2030.⁵⁰ Further, the sharing of vaccines, medical information, and medical technology may also be adversely affected by Brexit.⁵¹

Perhaps the largest concern among the international community are the effects on international trade with the U.K., as a result of Brexit.⁵² At the moment, the future of British trade with the EU is entirely uncertain due to the ongoing negotiations on a withdrawal agreement with the EU.⁵³ A major problem for the U.K. during these negotiations is that they have relatively little

⁴¹ *Id.*

⁴² *Id.*

⁴³ Nick Fahy, et al., *How Will Brexit Affect Health Services in the UK? An Updated Evaluation*, *Lancet*, p. 949-958 (2019), available at <https://brexitfactbase.com/pdfs/PIIS0140673619304258.pdf>.

⁴⁴ *Id.*

⁴⁵ *Id.*

⁴⁶ *Id.*

⁴⁷ *Id.*

⁴⁸ *Id.*

⁴⁹ *Id.*

⁵⁰ *Id.*

⁵¹ *Id.*

⁵² Swati Dhingra et al., *The Consequences of Brexit for UK Trade and Living Standards*, LSE, p. 2-12 (2016), available at https://cep.lse.ac.uk/pubs/download/brexit08_book.pdf#page=40.

⁵³ *Id.*

bargaining power with the EU due to its smaller market.⁵⁴ Moreover, the British must pay for the hiring of their own civil servants to help rebuild its capacity to undergo trade negotiations with the EU.⁵⁵ Despite the relative uncertainty of a No-Deal or withdrawal agreement scenario, projections for both the U.K. and EU are pessimistic.⁵⁶ The cost of Brexit to the U.K. economy is likely to exceed the benefits of lower contributions to the EU.⁵⁷ Overall, projections indicate a decrease in income between 6.3% and 9.5%, which is about £4,200 and £6,400 per household per year.⁵⁸ The EU will also be worse off, specifically Ireland, the Netherlands, and Belgium, whereas non-EU countries like Russia and Turkey should benefit as trade is diverted toward them instead of the EU.⁵⁹

IMPACT ON THE UNITED STATES

The U.K.'s exit from EU membership not only affects both the British and European economic wellbeing, but also the United States' as well.⁶⁰ Without the full economic infrastructure of the EU, the U.K. may rely more heavily on trade agreements with the U.S. in order to compensate for any EU losses.⁶¹ While it is likely a trade agreement between the U.S. and U.K. will not fully compensate for the loss of EU membership, a trilateral agreement with the U.S., U.K., and EU might help mitigate potential losses.⁶² However, any trade agreement between the U.K. and U.S. will take time, most trade agreements take years to coordinate.⁶³ Complicating negotiations with the U.S. further, the U.K.'s best and brightest trade negotiators are juggling many issues at the moment, including potential deals with the EU and China.⁶⁴

⁵⁴ *Id.*

⁵⁵ *Id.*

⁵⁶ *Id.*

⁵⁷ *Id.*

⁵⁸ *Id.*

⁵⁹ *Id.*

⁶⁰ Charles P. Ries et al., *After Brexit: Alternate Forms of Brexit and Their Implications for the United Kingdom, the European Union and the United States*, RAND CORPORATION, (2017), available at https://www.rand.org/pubs/research_reports/RR2200.html?adbsc=social_a%E2%80%A6.

⁶¹ *Id.*

⁶² *Id.*

⁶³ Telephone interview with Alan R. Gitelson, *supra* note 3.

⁶⁴ *Id.*

Brexit will also have some adverse effects on the U.S. economy.⁶⁵ Such negative impacts include a decrease in U.K. investment in the U.S. and U.S. firms needing to move from the U.K. to continental Europe to retain its EU trading capabilities.⁶⁶ There is also the possibility that U.K. airplane manufacturing, specifically Airbus, will look to capitalize on Boeing's recent struggles in the U.S.⁶⁷ Yet, Brexit's greatest impact on the U.S. will be political.⁶⁸ The U.K. was a stabilizing force for the U.S. within the E.U; for instance, the influence between the U.S. and the U.K. helped to ensure the EU defense policies did not violate NATO agreements.⁶⁹ Moreover, the U.K.'s exit may open old political disputes with some of the US's other European allies, and a weakened economy may inhibit the U.K.'s ability to fund its defense forces.⁷⁰

However, these projections, as well as all political and economic predictions related to Brexit going forward, are far from certain, meaning the next year's negotiations will be critical for the U.K. and the globe at large.⁷¹ Because of the recent pandemic, the U.S. economy is now struggling after years of improvement.⁷² Across the globe, this is a tenuous moment in economic history.⁷³ Brexit is central to that tension, the next steps can either mitigate or exasperate economic consequences for the U.S., the EU, and the world as a whole.⁷⁴

⁶⁵ Ries et al., *supra* note 60, at 8.

⁶⁶ *Id.*

⁶⁷ Telephone interview with Alan R. Gitelson, *supra* note 3.

⁶⁸ Ries et al., *supra* note 60, at 8.

⁶⁹ *Id.*

⁷⁰ *Id.*

⁷¹ *Id.*

⁷² Telephone interview with Alan R. Gitelson, *supra* note 3.

⁷³ *Id.*

⁷⁴ *Id.*