INTRODUCTION: Special Forum on Brexit Part 2


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The present

Brexit was triggered March 2017 and is formally to be completed by March 2019. It seems increasingly likely that the actual process of leaving the EU will be more protracted, extending into the next decade. The British government seems to have been wrong-footed at every turn. The decision made in 2013 to hold a referendum was never properly thought through and the Cameron-led coalition of that time did not expect to have to fulfil this promise. The unexpected Conservative majority government returned in the general election of 2015 followed, and the Executive approached a referendum based on sharp divisions within Conservative ranks, but with a sense of complacency. Remain never expected to lose.

Nothing since then has been normal, and that includes the result of the general election of June 2017. Again, voters confounded received wisdom, eliminating the slim Conservative majority. Prime Minister Theresa May campaigned based on strength of leadership and a mandate for Brexit, but the campaign made little reference to Brexit and was undone by a failure to address discontent regarding welfare and social policy after almost a decade of austerity. What it means to talk about mandates in this context is deeply ambiguous. More importantly, an unstable minority governing party, dependent on an unofficial coalition with a Northern Irish party whose concerns are parochial, leads negotiations. Theresa May has lost credibility as a leader and members of her Party are positioning to replace her. It remains the case whoever is leading the Conservatives that the UK government may be unable to guarantee acceptance by Parliament of any agreed position with the EU, and that there is a further potential of government collapse. New complications now compound an already complicated situation.

The future?

Complications are many (see Morgan and Patomäki, 2017). The beginning of formal negotiations crystallised what previously had seemed likely. The UK negotiating team, led by David Davis accepted the EU stipulated sequence of negotiation (settling the guarantee of citizen rights and establishing the liabilities of the UK vis-à-vis the budget etc prior to negotiation of the UK’s post-Brexit relation with the EU). The UK government sought to represent this as a generous concession. It is more accurately a conforming to standpoints already ingrained in reality, since the EU had already set out its collective position (EC, 2017a, 2017b, 2017c). Once an EU27 position has been agreed between members, the form of that agreement creates a clear and restricted scope to which its negotiators led by Michel Barnier must abide (and which is difficult to change). So, one might describe the UK part as seeming capitulation based on either wilful misrepresentation or hapless misunderstanding of what was possible. The EU for its part has a collective position but one should not conflate this with unity. A collective position does not require background unity or coincidence.

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of all interests, merely agreement. Different members, for example, will compete to host EU agencies (with attendant benefits) that can no longer be located in the UK; notably the European Banking Authority (EBA) and the European Medicines Agency (EMA). They are likely also to lobby to restrict London’s capacity to act as the main clearing centre for the Euro.

The collective position matters, since the EU’s fundamental position remains that it is not in the interests of the coherence of the EU for the UK’s status outside of the EU to be relatively unchanged in its relation to the EU. This is not the same as intent to hold or exercise ill-will, it need not be considered personal. The central idea accords with a moral principle that is widely held: a non-member of the Union, that does not have or adhere to the same obligations as a member, cannot have the same rights and enjoy the same benefits as a member. The idea of symmetry of rights and benefits, on the one hand, and obligations, on the other, thus becomes an implacable institutional constraint. In so far as it manifests in particular consequences as negotiations continue over the coming years, what seems likely to also be revealed is the basic lack of leverage UK negotiators possess. Negotiation, like social reality in general, is a process. However, agreement matters more to the UK than to the EU, and formal deadlines for domestic changes to law within the UK and for detailed negotiation with the EU are tight. Moreover, there remains basic ambiguity concerning what the UK government actually wants and what it can achieve. Differences, dichotomies and simplistic representations abound and the basic splits between soft/hard and left/right exits persist.

Martin Wolf, the economics commentator of the Financial Times, has argued in favour of a second referendum after the Brexit negotiations. In his view this would be the most legitimate thing to do from a democratic viewpoint, given that the original vote between “remain” and “leave” was between a known existing state of affairs and some unspecified future form, where different voters could imagine their own preferred or non-preferred exits. The leave decision thus disguises difference. Wolf goes so far as to suggest that the UK should pull out from the Brexit process. This may be impossible, however. Many processes are path-dependent and become for-all-intents-and-purposes irreversible. Whereas in June 2016 the “remain” option was clear, the same option does not seem to be available to the UK anymore. Not only is a reversal constitutionally questionable within the EU as currently structured, any reversal of policy may not include reinstatement of the UK’s relatively privileged position of budget rebates and opt-outs within the EU. This conforms to recent comments by Guy Verhofstadt, the European Parliament’s coordinator on Brexit, the French president Emmanuel Macron, and other European politicians. As Verhofstadt stresses, the UK may stay but only as an ordinary member:

Like Alice in Wonderland, not all the doors are the same. It will be a brand new door, with a new Europe, a Europe without rebates, without complexity, with real powers and with unity. (Quoted in Rankin, 2017)

It remains the case as Wolf argues that the choice in the June 2016 referendum was badly defined. Even slight changes in the framing of questions can result in different answers from the same people. Moreover, as Table 1 below illustrates, it is relatively straightforward to demonstrate how incompatible different leave-options can be. The basic principle of Brexit negotiations is that nothing is agreed until everything is agreed; individual items cannot be settled separately. This opens up

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2 The philosophical principle actually holds that every meaningful right has a corresponding duty of others to respect that right (e.g. right to free speech means you cannot stop someone else from speaking things out loud that you oppose), or duty of particular others to provide whatever that right promises to deliver (e.g. social rights vis-à-vis the state). The version according to which those who do not live up to the same obligations as a member, cannot have the same rights and enjoy the same benefits as a member, is analogous to the basic principle of (neo)liberal welfare state (e.g. you are only entitled to unemployment or welfare benefits if you are actively seeking for work and have employment normally).

3 See Wolf’s FT interview of 16 June 2017 at https://www.facebook.com/financialtimes/videos/10155370220965750/; see also his column (Wolf [2017]), which forms the starting point of the interview.
possibilities for further twists and turns. If the UK government changes in the course of these negotiations, Table 1 options D or B could change to C or A. Moreover, if no agreement is reached by the deadline, EU Treaties will no longer apply to the UK. This is likely to mean a sudden collapse of the countless collaborative ties between the UK and the rest of the EU. However, it is also conceivable, though much less likely, that it could mean no Brexit after all, followed by negotiations about the precise terms of renewed British membership and a new referendum in the UK. If Brexit becomes real, it is probable that the UK will continue to pay its annual EU contribution (approximately £13 billion annually) for the two years from 2020 and 2021. There will be a three-year transition phase and the UK will have to renegotiate a large number of international treaties. The Brexit process will drag on for several years and well into the 2020s.

Table 1: Four possible British exits from the EU

<table>
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<th>Left</th>
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<td>Soft</td>
<td>A. Retain close ties to the EU, especially in terms of free movement of labour/people and human and social rights.</td>
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<tr>
<td>Hard</td>
<td>C. Use the regained autonomy to rebuild democratic welfare state in the UK independently of the neoliberal regulations and policies of Brussels.</td>
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As has been made clear to the UK negotiators, the Brexit deal itself covers only the terms of exit; the future relations between the UK and the EU will have to be negotiated separately. As has also become immediately clear, the negotiation process is formalised in all senses, and so is far from the more freewheeling approach that the UK government gave every impression that they expected to pursue prior to the initiation of talks. The first phase consists of four rounds of talks each round to begin four weeks after the last and up until a final round, the second week of October. The talks are broken into three separate strands undertaken by different teams or working groups. Within each four-week cycle the first two weeks consist of preparations by the working group members, followed by a week of talks in Brussels (with Davis and Barniers in attendance), and then a week of reporting back/consultation of each party with their relevant decision-making constituencies (the UK government etc) before the next round begins.

However, the formality of talks is not quite the same as an over-determination of content. One should note that the difference between the two soft exits (A and B in Table 1) has become blurred to the extent that there is at least a tentative basis for some agreement to protect migrant EU citizens’ post-Brexit rights if they have been resident at least for five years in the UK/EU. One should not confuse the indifference with which this was met in the European Council with disinterest regarding this offer. The Council is a forum for many issues, of which Brexit is now only one among those many, and the Council is not the direct point of interface for negotiation, which remains the Commission. Leaders, including the German Chancellor Angela Merkel, recognized May’s offer as an opening position (see Rankin, Stewart and Boffey, 2017). The key question is whether the UK will remain in the European Economic Area (EEA). On purely ideological grounds, one would expect Labour to stress social and human rights and the Conservatives economic freedom and free markets. Behind this difference lie very different approaches to critique of the EU as-is. The Left has always considered the EU as too neoliberal (the single market as a local expression of global capital) and the Right, not neo-liberal enough (Delors’ social policy and stealth integration corroding sovereignty where only an economic relation was envisaged, see Jessop, 2017; Worth, 2017). The EEA is a very...
extensive agreement, however, and this would mean the endorsement of most of the EU’s apparatus, deals and regulation without the capacity to shape EU-regulation in the future. A soft exit would thus mean leaving the EU decision-making system, resulting in the UK becoming, in the main, a rule-taker rather than rule-maker.

Clearly, this could make a hard exit (C and D in Table 1) attractive to some, but there are two very different versions of it. The Conservative version of hard exit revolves around the regained autonomy to maximally exploit the possibilities for benefitting from tax competition and broader oppositional competitiveness approaches with other states (D). Tax reductions and other related measures translate readily to austerity, implying cuts to public services and social benefits. The Left version of hard exit aims at the opposite outcome. The point of hard exit would be to use the regained autonomy to rebuild a democratic welfare state in the UK independently of the neoliberal regulations and policies of Brussels (C). In so far as the EU represents an authoritarian project of neoliberal integration, it is only possible to develop a democratic political system and a social-democratic society outside the EU (e.g. Johnson, 2017). The Labour Party 2017 Manifesto takes a softer line, however, stressing that the UK wants to retain as much of the existing EU agreements and systems as possible. Should there be new general elections in 2017 or 2018 resulting in a Labour government, the softness or hardness of Left Brexit would have to be resolved within the Labour Party. This leaves unresolved a fundamental question: To what extent are different EU agreements and systems compatible with the attempt to develop political and social democracy within the UK? Addressing this would seem likely to manifest divisions within the Labour party no less deep than those that afflict the Conservatives.

**Failing forward or merely lurching?**

We suspect that neither version of hard exit would be particularly successful even in its own terms, albeit for dissimilar reasons. In many areas such as international trade the Conservative version (D) is ambiguous, because it is not clear how the Conservative understanding of free trade and competitiveness would be different from the currently prevailing EU policies. Clearly a radical reduction of the UK corporate tax rate would go against the spirit of the Commission’s 2015 proposal for a Common Consolidated Corporate Tax Base (see Morgan 2016, 2017b). It would serve to intensify an on-going race to the bottom and strengthen disintegrative tendencies in the European and global political economy (Patomäki, forthcoming). Tax war against other states in Europe and elsewhere is a zero-sum game, and in the context of financialization, which tends to decelerate growth (e.g. Stockhammer, 2004; Treeck, 2009; Seabrooke and Wigan, forthcoming, 2018) and has adverse fiscal multiplier effects resulting from austerity and increasing inequalities (e.g. Cynamon and Fazzari, 2015), it can also be a negative-sum game between countries. This makes the world system more susceptible to conflicts. An increasingly less benign international political environment is unlikely to spell a successful future for the UK in terms of social progress, GDP-growth or security.

The Left version of hard exit, meanwhile, ignores the numerous subtle mechanisms and international treaties and institutional arrangements that underpin neoliberalism and, moreover, is vulnerable to the structural power of transnational capital (mediated by prevailing ideas and forms of agency, see Bell 2012). While some economic, political and social progress can be achieved – depending on concrete circumstances – by means of social democratic economic policies within the confines of a nation-state, it is not easy to reverse the worldwide process of neoliberalization individually, i.e. independently of what happens elsewhere and without collective actions and new or transformed common institutions. The hard Left exit is constrained by other states’ policies and by the possibility of capital exit. The more radical the Labour programme, the more likely it is that transnational capital will resort to investment strikes or move elsewhere (consider France 1981-83 or, in a much more partial analogy, the UK in 1992). Significant capital outflows would also have a major impact
on the exchange rate of Sterling. Although actors know what it is that they are doing, under some perspective, they do not necessarily understand (all) the effects of their actions and policies, not even retrospectively. The dynamic and systemic international (or transnational, regional, or global) impact of the consequences of their actions can in turn have feedback effects, whether acknowledged as such or not. It is, of course, important to approach the significance of Brexit from multiple perspectives. In particular, one should not conflate a UK-centred focus with a UK-centric point of view. What is occurring in the UK has context and is part of broader processes.

The new essays

Erroneous expectations, forecasts, and anticipations, like unintended consequences of actions and policies, usually arise from false or misleading categories, prototypes and theories. Steve Keen is a prominent post-Keynesian critic of mainstream economics and its consequences. Keen starts the second part of our Brexit Forum with an explanation of why mainstream economists were wrong in anticipating that a vote to leave the EU would have an immediate significant negative impact on the British economy in 2016-17. Moreover, he argues that this failure is rooted in a deeper misunderstanding that confuses the role of and possible reasons to engage in trade with an abstract model of free trade, creating in turn a mis-specified underpinning for a discourse of globalization.

According to Keen, when assessing the consequences of economic foreign policy making, mainstream economists rely largely on the theory of comparative advantage. The concept is so basic because it is for many prominent economists an unquestionable commitment that identifies real or serious economists. As Alan S. Blinder, a leading academic macroeconomist who has also served as Vice-Chairman of the Federal Reserve Board, puts it:

I have long believed that one true test of whether a person is an economist is how devoutly he or she lives by the principle of comparative advantage. And I don’t mean just preaching it, but actually practicing it. (Blinder, 1998, p. 1)

Mainstream economists in general assume that international free trade is beneficial because of gains from specialisation. This underpins basic arguments for free movement of capital and labour and for factor equalisation and so has profound political implications for the policy space of states. And yet the most affluent countries are also the most diverse and complex in their organization of production and have rarely become successful by simply opening their borders (infrastructure, capital controls of one kind or another and many other policies have mattered). Basing his argument on the results of extensive empirical research, Keen concludes that “whether trade liberalisation causes a net increase or decrease in productive capacity is a question of investment and effective demand, and not one of relative efficiency” (Keen, 2017a, p.**). Brexit, as currently presented has little to say about constructive investment and effective demand. As Keen also notes economists’ failure to predict the UK’s better-than-expected economic performance since the June 2016 referendum is also in the context of their general failure to forecast anything of importance, including basic features of real economies, such as asset bubbles and financial crises -- which are features of, rather than accidents that happen to, economies (Keen, 2017b).

Silke Trommer (2017) continues Keen’s theme of trade, but focuses on the reality of the UK’s position in terms of trade treaties. She argues that post-Brexit UK trade policy autonomy is a pyrrhic victory, and in many ways illusory, since the UK will be required to conform to existing institutions even as it seeks to develop new terms of trade. Apart from the “absence of a clearly formulated substantive post-Brexit trade agenda”, or any systematic account about the ways in which the EU and UK positions on free trade may differ, there are a number of reasons why “Britain may find it more difficult to push its own trade agenda internationally than is currently conceded in the debate” (2017, p.**). Current free trade negotiations are mostly not about direct or purposeful obstacles to products crossing borders. Rather they concern market access to sectors of services, public procurements,
investment protection, and regulatory harmonisation. Free trade negotiations have become complex and unmistakeably political. The UK’s relative importance in the world economy has declined and, moreover, it lacks capacity to conduct dozens if not hundreds of negotiations simultaneously. Fragmented and complex trade negotiations “produce commercial fragmentation and contribute to regulatory clashes” (2017, p.**). It seems unlikely that Brexit will turn out to be beneficial to the UK in “free-trade” terms.

Leonard Seabrooke and Duncan Wigan (2017a) focus on the likely consequences for tax policy and competition based on Brexit. They situate the potentials as a product of activity in global wealth chains, a concept that builds but diverges from the well-known concept of global value chains (Seabrooke and Wigan, 2017b). Firms and other actors seek to concentrate and protect income and wealth from other claims and this sits in terms of a complex of rules and practices within and between states. They set out the likely consequences of the hard Right exit (D), defined as a strategy of relying on “highly flexible labour markets, light touch regulation and a hyper competitive low tax regime” (2017a, p.**). They argue that Brexit may provide scope for the UK to develop along tax haven lines and so exacerbate trends in financialization. However, for this to benefit the UK in any meaningful sense, a large number of factors would have to be taken into account as Brexit occurs:

Occupyng space in global wealth chains requires a series of careful balancing acts between making a tax offer attractive to mobile capital and maintaining sufficient revenue, designing a low tax regime and staying within the boundaries of accepted practice established by multilateral rules and norms, and between multiple, often conflicting, goals that Britain must simultaneously pursue as it leaves the European Union. (2017a, p.**)

Moreover, this strategy will make the UK ever more dependent on the City of London.

It is important, of course, to emphasise that a hard Right exit is a gamble at the expense of other states and the sustainability of the world economy. It would make world politics ever more competitive and less benign for all parties. Jayati Ghosh (2017) takes up this collective theme. Ghosh explores the causes of the “leave” outcome and draws implications for the possible and likely futures of the EU as a whole. She does so based on a non-Eurocentric perspective: “Across the world, people have been watching recent political changes in developed countries with a mixture of bemusement and shock” (2017, p.**). Ghosh explains these developments first and foremost in terms of growing inequalities and flat or falling incomes for the multitude in the industrialized North. Moreover, “labour market trends [i.e. flexibilisation] have contributed to feelings of insecurity among workers everywhere” (2017, p.**). These two developments are closely connected, since “countries that have encouraged the growth of part-time and temporary contracts experienced bigger declines in wage shares”. Relying on a large-scale empirical study provided by the McKinsey Global Institute, she shows that many of those people suffering most from these developments are particularly liable to blame foreigners and globalization for their problems. Moreover, during the euro crisis, the EU – the Commission and the leading member states, particularly Germany – have insisted on strict adherence to the rules and procedures that penalise (and so blame) member states in crisis. Empathy or solidarity, which are supposedly soft features of the EU project, are notoriously absent; and the tendency to localise blame (victimising those who may be victims) is stark. Clearly, the consequences of policies of indifference can be counterproductive for those who pursue them, resulting in popular disaffection that can easily translate into equally or perhaps even more devastating responses than in the UK. As Gosh notes these responses “could even cause a disintegration of the union” (2017, p.**).

The unthinkable, of course, has to be thought in order to be designated as such. Moreover, what is unthinkable is a moving issue that mutates as history unfolds. History itself provides useful points of comparison to explore possibilities. Joachim Becker (2017) concludes our Special Forum by drawing
close parallels between the disintegration of Yugoslavia and the present centrifugal tendencies in the EU. In Yugoslavia uneven developments and decentralised structures prepared the ground for the intensification of conflicts in the wake of a debt crisis and several austerity programmes in the early 1980s. The story of the disintegration of Yugoslavia is surprisingly similar in several ways to what seems to be occurring in the EU. This includes at the level of other-blaming rhetoric – though there are, of course, also obvious differences, and actual military conflict seems particularly unlikely. A close parallel is that apart from Slovenia, the Yugoslav successor states have suffered from lasting de-industrialisation. Nothing in world history every repeats itself in exactly the same way, but we can still draw historical lessons by understanding the mechanisms that can be causally efficacious across different geo-historical contexts. Uneven developments have been repeated in the EU. As Becker states:

Projects like the Single Market and the euro zone have deepened uneven development patterns because they removed protective mechanisms from the peripheral economies without creating sufficient compensatory mechanisms (like regional industrial policies). […] In late Yugoslavia, likewise pro-Yugoslav tendencies tended to be relatively strongest in some of the urban centres. And exclusionary nationalism took particularly strong roots in crisis-stricken rural areas and small towns. (2017, p.**)

Becker’s analysis supports Gosh’s main conclusions that “only a more progressive and more flexible union based on solidarity of peoples is likely to survive” (2017, p.**).

Conclusion

For the UK, Brexit has become a reality that is weirdly surreal in its moment-to-moment manifestations. It still carries a sense of unreality for many in the UK, and in terms of its possible consequences continually provokes analyses that emphasise a kind of collective stupidity that has been stumbled into, but from which no one seems capable of withdrawing. It seems highly unlikely that any constituency is going to get what they thought they were voting for (see Morgan, 2017a). Moreover, the Leave grouping that has dominated proceedings in recent months is now starting to acknowledge that no one ‘votes to be poorer’, and yet the very terms on which ‘control’ was sold to a voting public created this as a likelihood, if immigration dominated other economic concerns. This is a circle that has yet to be, and may never be, squared by substantive policy for negotiation.

However, again one must not conflate a UK-centred problematic with a purely UK-centric focus of concerns. Brexit is also part of broader processes. It is not hyperbolic to suggest that the survival of the EU is still at stake in the longer term. The election of Macron may seem to have stabilised a Franco-German axis at the heart of the EU and recent improved economic metrics across the EU may provide grounds for an optimistic narrative in the press. However, underlying issues of inequality and lack of democratic representation have not simply disappeared, and global tendencies for growth to occur within unstable processes of financialisation have not been addressed. They are institutionally ingrained. Currently prevailing modest reform proposals and tentative steps within the existing EU Treaty framework may be too little too late to address underlying issues. This remains to be seen. Without such changes European disintegration and broader global socio-economic crises remain possibilities (Keen, 2017b). For these possibilities not to arise then more fundamental changes are required (see three scenarios for the EU Patomäki, 2017; and forthcoming, ch 6). More democratic and sustainable futures do not write themselves, they must be conceived and realised.

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