

Brexit: a political and economic case study¹

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Abstract

No economic policy can be implemented without political influence, and politics is deeply affected by economic consequences. This braiding of political and economic sciences is clearly illustrated in a case study of the decision-making process by the United Kingdom to leave the European Union in 2016. This article reveals the role of political and economic factors instrumental in this decision and concludes with appeal for understanding and future built on mutual respect and trust.

Keywords: European Union (UE), United Kingdom, Brexit, federation, confederation, political systems, economics.

Brexit: polityczno-ekonomiczne studium przypadku

Streszczenie

Żadna polityka gospodarcza nie może być realizowana bez wpływów politycznych, a polityka jest głęboko dotknięta przez konsekwencje gospodarcze. Ten splót nauk politycznych i ekonomicznych jest wyraźnie zilustrowany w studium przypadku procesu podejmowania decyzji o opuszczeniu Unii Europejskiej przez Zjednoczone Królestwo Wielkiej Brytanii i Irlandii w 2016 roku. Artykuł ujawnia rolę czynników politycznych i ekonomicznych, które były kluczowymi w tej decyzji, i kończy się apelem o zrozumienie i budowanie przyszłości na wzajemnym szacunku i zaufaniu.

Słowa kluczowe: Unia Europejska (UE), Zjednoczone Królestwo, Brexit, federacja, konfederacja, systemy polityczne, ekonomia.

¹ The opinions expressed in this article are the authors' own opinions, which do not represent in any manner this journal or the University of Warsaw. The conclusions and assessments in this article are based on the knowledge and experience of the authors.

Political science concerns the allocation and transfer of power in decision making, the roles and systems of governance including governments and international organisations, public policies, and political behaviour. Economics deals with the production, consumption, and transfer of wealth. Neither has a single agreed methodology. This article demonstrates how the two sciences are irrevocably intertwined and braided together by using the Brexit process as a case study.

In 1960, Britain was trying to readjust its global political influence after the loss of an Empire and the British economy was faring badly against the six countries that had created the European Economic Community (EEC). Encouraged by Washington, Britain applied for EEC membership and its applications were vetoed by General Charles de Gaulle in 1962 and 1963. Finally, in July 1973, the European Communities Bill was passed in the UK parliament by 301 to 284 votes. In June 1975, in order to honour a manifesto pledge, it was decided to have a non-binding referendum on the issue which was an extraordinary step as it was the first time in British history (and only one of three since). There was a turnout of 64% and two-thirds of those who voted, approved the deal. Great Britain was finally, legally and officially a member of what was then referred to as "the Common Market", i.e. *an economic union*. By the mid-1980s, the British economy was outperforming its counterparts on the Continent. Margaret Thatcher "recovered two-thirds of the UK's (disproportionately high) net contribution to the EEC budget, before helping to propel the next major stage of market integration – the Single European Act of 1987 under the president of the European Commission, Jacques Delors – from which she expected British financial services in particular to benefit" (Anderson 2021). The next hurdle was the Treaty of Maastricht (initially rejected by the Danes), but signed by the British Prime Minister, John Major. This had significant political undertones and sparked the demand for another referendum which was not granted but never died down. As a result, in January 2013, David Cameron promised that, should the conservatives win a parliamentary majority in the 2015 general election, the British government would negotiate arrangements for continuing British membership of the EU, before a referendum. This pledge was honoured in 2016, and after a referendum campaign of ten weeks, on 23rd June, 51.9% of the UK voted to leave. After another fractious four years of negotiations, the UK officially left the EU on 1st January 2020 (EUR-Lex 2021).

Since the 2016 referendum, there have been concerns as to how Britain can weather the divide both politically and economically. For more than 40 years of EU membership, Britain has been linked by a deep integration of economic processes such as the growth of small and medium-sized businesses, foreign direct investment, trade in goods and services. Movement of labour was stimulated by the Single European Act and became confused (in the British eyes) with migration. There are also many socio-political issues such as working practices, labour market changes, security and digital procedures that need to be rethought. Brexit ruptured all these processes and the subsequent possible negative effect on the British economy was a powerful motivator for the "remainers".

This article analyses the political and economic factors that led to this rupture, and demonstrates how these factors are intertwined. It describes the political structures of the EU and looks at the difficulties of integrating independent political entities together. It also analyses key macroeconomic indicators of the UK economy in comparison with the EU, over the past 15 years.

Political issues concerning the Union of Nations

How to establish control is a key issue of political science, but it also has great relevance in other disciplines. The "science" in "political science" refers to the method of doing science or the scientific paradigm (Kuhn 1970). In its current form, this can be shown to stem from the work of Newton, Descartes and Galileo based on a rational and deterministic study of an objective reality through empiricism and experimentation. In 1946, Norbert Wiener published a book called *Cybernetics: Or Control and Communication in the Animal and the Machine*, which suggested that control was centrally imposed by self-regulating feedback loops (Richardson 1991). This challenged the paradigm of a stable equilibrium and replaced it by a dynamic equilibrium called homeostasis. Cybernetics thus initiated a new paradigm which can be termed the "systems paradigm" and by studying the process of organisation itself, suggested that there are cybernetic laws that govern organisation just as there are physical laws such as the conservation of energy (Pitts 2020). Thus, the organisational structure of a composite whole affects the behaviour of the members. The political problem for any organisation is how parts that have decision-making capabilities can work together as a whole.

In most man-made organisations there is central control, but this is not obligatory and indeed is not true of the most successful organisation that we know – Nature. In Nature there is no single entity that could be said to be "in control". Nature is a self-regulating system where every part is interdependent. There is both competition and cooperation between the parts which exist in a dynamic equilibrium. As an example, the study of ant behaviour reveals no central controlling mechanism (Wilson 1971). Every ant is identical at birth yet can assume many roles and even switch roles in times of danger. Their queen is not an authority figure, she merely breeds the ants. In human organisations, central control is common. This being the case, the problem is how this central control is preserved – in a very strict way (dictatorships) or in a looser way (democracy). Another way of phrasing this dichotomy is federation or confederation.

Federation and Confederation

An example of the federated government is the United States of America. The history of its development is interesting. From 1800 to 1856 it used the Hamilton model (Knott, Williams 2015) where the individual states had some degree of autonomy inside the

Union, and, importantly, however often disputed, the right to secede. They made their own laws and set their own taxes. It had a president who embodied the will of the nation and a sense of growing importance of American federal government. An alternative model was the Jefferson one which placed much more emphasis on democracy, less energetic government and the state rights, but accepted that the latter only had representation in the Senate and Congress. Interestingly Jefferson's understanding of executive power consisted of three principles (Gutzman 2017; Nichols 2012):

- First, the president had strong central control;
- "Second, because a constitution can never be adequate for the opportunities and emergencies that will arise, and because the executive is caretaker of the public good, the executive must sometimes act outside the law, or even against it, on behalf of the public good" (Nichols 2012: p. 133);
- "Third, in order to provide a standard by which the people can judge executive action, the executive provides "declarations of principle". Such declarations allow for political change but also preserve constitutional limitations on power by enabling the people to judge executive discretion" (Nichols 2012: p. 133).

After the U.S. civil war, Abraham Lincoln promulgated in the rule of the majority – it is the will of the populace that governs and the individual makes his voice known only through representation in the aggregate (Farber 2003). He therefore adopted the more central government oriented federal model.

Switzerland operates a more confederal system (although confusingly it was often called a Federation). Power is shared between the central government, the cantonal governments and the country's more than 2,000 communes in the following manner: the central government tackles policy including defence, national roads, energy and external relations. The Confederation only undertakes tasks that the Cantons are unable to perform, or which require uniform regulation by the Confederation. Foreign relations are the responsibility of the Confederation. The Confederation may levy a direct tax. "Subject to the rights of the People and the Cantons, the Federal Assembly is the supreme authority of the Confederation" (Federal Constitution... 1999: art. 148). The Supreme Court is the supreme judicial authority of the Confederation. The Cantons have their own government, laws, courts and constitution, but must not contradict the national constitution. Some of the areas, in which they dictate their own policy, include education, healthcare and cultural affairs. "The views of the Cantons are of particular importance if their powers are affected. In such cases, the Cantons shall participate in international negotiations in an appropriate manner" (Federal Constitution... 1999: art. 55). The communes are mostly run by communal assemblies and have their own responsibilities including local planning, social welfare and schools. Since parliament elects the government, it also elects the Swiss president. He or she serves for one year only and doesn't have any more powers than his or her peers but is considered "the first among equals". The President chairs meetings of the Federal Council and has special duties to represent Switzerland when necessary (Federal Constitution... 1999).

This is in clear contrast with Abraham Lincoln's first inaugural address, where he flatly rejected the notion that governments derive their powers from the consent of the governed. Instead, Lincoln claimed that, despite the clear wording of the Tenth Amendment, "no State upon its own mere motion can lawfully get out of the Union; [and] resolves and ordinances [such as the Declaration of Independence] to that effect are legally void" (Avalon Project 2008). The American Constitution subsequently strengthened the central government, authorising it to exercise powers deemed necessary to exercise its authority.

This article suggests that the issue of a federated or confederated European Union was a key factor in the Brexit decision, even overshadowing the economic issues. In some eyes, it even overshadowed the economic issues. To explore this in further detail, the present structure of the EU must be examined.

The political structure of the European Union

The structure and purpose of the major political components of the EU are now discussed.

The European Parliament

The European Parliament is composed of 705 deputies, apportioned between the Union's 27 countries and shuttling monthly between Brussels and Strasbourg. It has historically been an ally of the Commission and the European Court in its aspirations to a federalist future for Europe. It only came to be officially styled a Parliament in the 1980's and over time the Parliament has acquired its own substantial bureaucratic infrastructure – presently, some seven thousand functionaries. It has "a limited number of powers, of which the three most significant are the right to 'co-decision' with the Council on legislation proposed by the Commission; to reject – but not to amend – the budget proposed by the Commission; and to reject – but not to elect – commissioners chosen by the president of the Commission. What it does not possess are the rights to elect a government, to initiate legislation, to levy taxes, to shape welfare, or determine a foreign policy" (Anderson 2021; Alter 2009).

"Average attendance is around 45 %. Virtually all the work is seconded to committees, where behind closed doors the mysteries of "trilogue" are enacted: that is, representatives of the Parliament confer with representatives of the Council of Ministers and of the Commission as to what legislative proposals emanating from the Commission, and typically pre-cleared by Member States and their permanent representatives in Brussels, can be accepted for transmission to a vote in the chamber – the discussions mostly revolving around matters of procedure rather than substance" (Anderson 2021). As Christopher Bickerton notes, "between 2009 and 2013, 81 per cent of proposals were passed at first reading via the trilogue method. Only 3 per cent ever reached third reading, which is where texts are debated in plenary sessions of the Parliament." (Bickerton 2012, qtd. in: Anderson 2021).

European Commission

Today, 27 commissioners, one per Member State, each allocated a portfolio of vastly differing importance. "Decisions are always taken by 'consensus' – that is, behind a façade of unanimity, under the impulsion or veto of the six major states. Similarly, the President of the Commission, responsible for liaison with the heads of government of member states, normally confers only with those in that select group" (Anderson 2021). At the next layer down, there are 27 commissioners, one per Member State, each allocated a portfolio and formally enjoy equal status under the president. In reality, since this would mean that the fourteen commissioners from the Union's smallest countries, representing a mere 12.65% of the population of the Union, could easily outvote the six commissioners from its biggest countries, representing 70% of its population. "Below the commissioners, appointed for five-year terms, sits the permanent bureaucracy of the EU, some 33,000 strong" (Anderson 2021). It remains a considerable power within the complex machinery of the EU, by reason of three attributes peculiar to it (Bartolini 2005):

- "The first is simply its size as a corps of permanent functionaries compared with that of any of the Union's other institutions, and the closed citadel of its workings – 34 different 'procedures' that no lay person is equipped to understand" (Anderson 2021).
- The second lies in the sheer size of the rulebook that it wields as an instrument of power within the Union – the *acquis communautaire*, impenetrable to its citizens, but inescapable for its states, forming the primary means of the uniformisation of Eastern Europe to EU norms, over which commissioners presided as proconsuls from Brussels (see: Anderson 2021).
- The third is that the Commission possesses a mollifying implement of power in the apportionment and disbursement of its cohesion funds. These form a significant source of patronage, a means of inducing compliance or rewarding loyalty, whose promise could be critical in winning local elites to the will of the Union.

In European bureaucracy's higher echelons, where heads and assistants of the Commission's 32 directorates-general are to be found, recruitment was until the mid-1980s heavily weighted towards functionaries with a legal background; below them, in the body of the administration, a general humanistic orientation was encouraged.

The Commission is formally vested with the sole power to propose legislation for the Union, but here the reality differs as more than two-thirds of its proposals are now hatched jointly with representatives of the member states in the dense undergrowth at Brussels, in which COREPER (Committee of the Permanent Representatives of the Governments of the Member States to the European Union) holds pride of place, and then rubber-stamped by the relevant Council of Ministers when passed up to it. COREPER is composed of the 'permanent representatives' from each member state, who, in effect, are their country's ambassadors to the EU. They express the position of their government. It is the Council's main preparatory body. All items to be included into the Council's agenda (except for some agricultural matters) must first be examined by COREPER, unless the

Council decides otherwise. It is not an EU decision-making body, and any agreement it reaches can be called into question by the Council, which alone has the power to make decisions. Its tasks are:

- coordinate and prepare the work of the different Council configurations,
- ensures consistency of the EU's policies,

works out agreements and compromises which are then submitted for adoption by the commission (Anderson 2021).

The European Central Bank

The European Central Bank is one of the most powerful EU institutions (Majone 2009). Based in Frankfurt, its governing council is composed of the heads of the central banks of the Eurozone countries and the six members of its executive board, meeting every two weeks. Its proceedings, unlike those of the US Federal Bank or the Bank of England, but in keeping with those of the European Court of Justice, are secret. Occasionally, a member may resign, but its decisions are formally unanimous. No dissent is ever published. The Treaty of Maastricht conferred absolute independence on the bank, which operates without any of the counterweights – Congress, the White House, the Treasury – that surround the US Federal Reserve Bank, embedding it in a political setting where it is publicly accountable. "Unlike any other central bank, the independence of the ECB isn't merely statutory, its rules or aims alterable by parliamentary decision: it is subject only to treaty revision. Nor, unlike the Commission, Parliament, Court of Justice or even Council, are its proceedings cumbersome. It can act with a speed and impact no other EU institution can match" (Anderson 2021). Within five months of the 2012 crisis. The president of the ECB, Mario Draghi, announced without any EU consultation to an audience in the City: "Within our mandate, the ECB is ready to do whatever it takes to preserve the euro" (Draghi 2012).

The European Court of Justice

Today the court remains, of all Union institutions, the most withdrawn from the public. Discreetly situated in Luxembourg, not exactly a European crossroads, and composed of judges appointed – one per country – by member states, its proceedings are hidden from public scrutiny; its decisions permit no admission of dissent; its archives grant minimal access to researchers (Grimm 2017). "Among EU institutions, the court remains uniquely distinguished as an actor in the integration process. It is the only Union institution whose activities are not routinely scrutinised (by itself or by others) for compliance with the EU treaties. Yet the treaty framework provides no basis whatsoever to justify differentiating between the court and the Union's administrative and political institutions with regard to compliance with its demands" (see: Horsley 2018; Anderson 2021).

The court is formally designated an institution of the Union, "as such, along with the Union's political institutions, it is irrefutably subject to compliance with EU treaties. But the court had authorised itself as the guardian of a constitution which had no basis in the treaties, but supposedly corresponded to their ultimate purpose" (see:

Horsley 2018; Anderson 2021). The court is thus not just a unique institution within the Community, but unique within any supreme or constitutional courts. It is endowed with powers that no analogue in a democracy has ever possessed. In all other cases, the rulings of such courts are subject to alteration or abrogation by elected legislatures. Those of the ECJ are not. They are irreversible except by the amendment of the treaties themselves, requiring the unanimous agreement of all member states (Horsley 2018).

The Council of Ministers

The European Council comprises of 27 heads of government enjoying majorities in genuine parliaments, the product of meaningful elections. As such, it has become the peak authority of the Union. Since 2017, the European Council possesses for its bi-monthly sessions a new seat in Brussels where the heads of state and government, plus the presidents of the Commission and of the Council itself congregate. They in turn are flanked by the Eurogroup of Eurozone finance ministers, who meet monthly, and whose president may also attend the Council when so invited, as too the high representative of the (considerably less important) Foreign Affairs and Security pillar of the Union. Though the supreme political authority of the Union, the European Council does not itself legislate: laws are lower-order matters beneath it. Its business is with the big decisions of the Union: essentially, crisis management, treaty revision and foreign policy. That is, urgent economic and "security" (viz refugee) problems; constitutional questions; relations with other powers (see: Georgakikis 2017; Anderson 2021).

"In principle, the weak link in the Council's jurisdiction is economic, since it has no authority over the ECB, whose independence is absolute and power over the economies of the Union unrivalled. In practice, the Eurogroup provides informal liaison, a representative of the bank attending its meetings, which are even more confidential than those of the Council itself, not least since the presence at them of the bank, in derogation of its independence, requires a veil of discretion" (Anderson 2021).

Each of the five major European entities has a president with a different role:

- the role of the European Parliament president is to ensure that parliamentary procedures are properly followed;
- the role of the European Council president is to lead the European Council's work in setting the EU's general political direction and priorities – in cooperation with the Commission;
- the role of the European Commission president is to give political guidance to the Commission;
- the role of the European Bank president is to authorise independent financial decisions;
- the role of the president of the European Court is to authorise independent legal decisions.

All the presidents are appointed except for the president of the European parliament who is elected from the other members. The European electorate has no say.

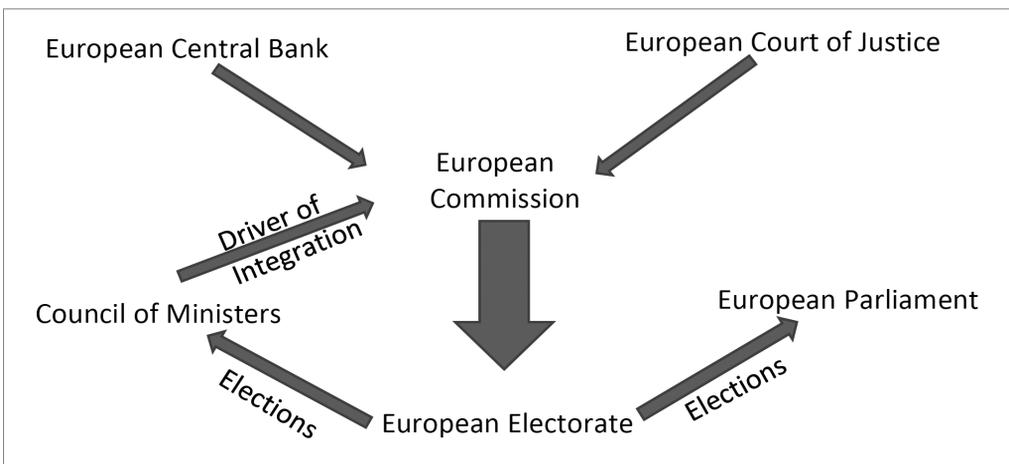
The political accountability of the European Union

Having discussed the organisational structure of the EU, their accountability is now examined. There are several problems (Lenaerts 1990):

- The electorate has little control over the behaviour of the central power. This, nominally, exists for the European Parliament, which itself has little power. The democratically elected heads of state play a role in crisis management and foreign policy, but have no control over economic decisions (the ECB) or the laws that are passed (the ECJ), and these laws can override national legislature. There is no separation between executive and legislative powers, in which an executive is responsible to an elected legislature.
- The executive and the judiciary are not subject to any constitutional audit or control. They are independent and their decisions cannot be questioned. The last ten budgets of the EU have not been signed off by the auditors although they have been approved by the Parliament (sic!). Decisions are effectively unalterable, whether or not they conform to the treaties on which they are nominally based.
- "The rule of the Union's proceedings, whether they are presided over by judges, bankers, bureaucrats, deputies or prime ministers, is secrecy wherever possible, and their outcome, unanimity" (Anderson 2021). This does not imply corruption but is dangerous in that it lays itself open to such charges.

These relationships are portrayed diagrammatically in *Figure 1*. There is no arrow from the European Parliament to the European Commission because, in the authors view, the parliament does not fulfil this function and is only a simulacrum.

Figure 1: The organisational structure of the EU.



Source: the authors' own elaboration.

As the British favoured a confederal approach rather than the federal one that operates in the current EU, this process of accountability was a crucial issue producing many tensions. A confederate model could take a variety of guises but generally it would allow for more autonomy in each nation whilst still preserving the identity of the EU. Some specific examples are that nationally elected bodies (such as a parliament) become the prime legal entity in the nation. The European Court of Justice would act as a monitoring device and adjudicate when needed. The judges must have a majority agreement from the nation states. A constitution must be drawn up which member nations must sign into. This must include the possibility to secede which would be a rare and unusual occurrence. The European Commission would be the resource allocator and under the control of the Council of Ministers and the European Parliament which sets the economic regulations. The EU together with the United States will be members of NATO, which will guarantee the security of all existing borders.

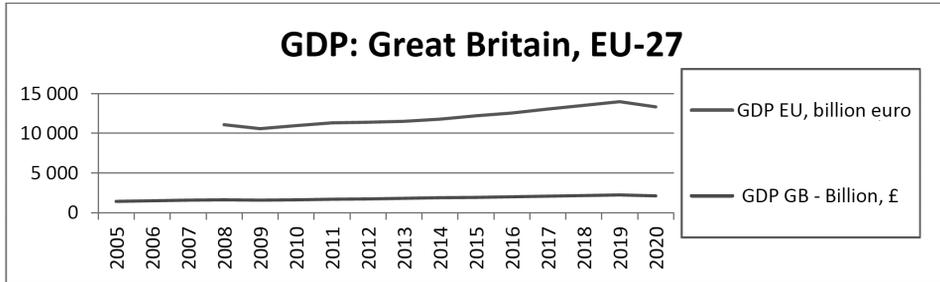
There is a propensity for large unelected and unaccountable institutions to defend themselves from critical scrutiny as is well attested in history. The result is invariably damaging, and the UK view was that the EU institutions had fallen into this trap. The UK successful campaign was centred around the slogan "take back control". Although this is ambiguous, its attack was on the unaccountability inherent in the EU. The EU was not perceived as democratic and there was unease that the authority of the UK parliament was being diminished. This was not against central control but against control by institutions that was irrevocable and could not be changed.

Economic issues

As the EU is the world's largest trading block (Economics online 2008–2021) and the major trading partner of the UK, a crucial issue is whether the UK economy (even though it is the world's fifth strongest economy) could withstand the shock of Brexit. This section analyses some macroeconomic indicators over the past 15 years. Although the analysis has been complicated by the impact of the coronavirus pandemic, it can still identify useful and meaningful trends. In the subsequent analysis, time series data are adduced to make reasonable inferences regarding trends and potential outcomes. However, in respect of Brexit, additional warnings are necessary with regards to the interpretation of econometric data. Econometric studies by the Bank of England (2021), the HM Treasury (2016) and other research organisations have attempted to outline likely impacts of the Brexit, but they generally fail both the Lucas Jr (1976) and Keynes (1937) tests regarding the inferences that can be drawn from econometric forecasting (Bloom et al. 2018; Booth et al. 2015; Dhingra et al. 2016; Busch, Matthes 2016; Sampson 2017).

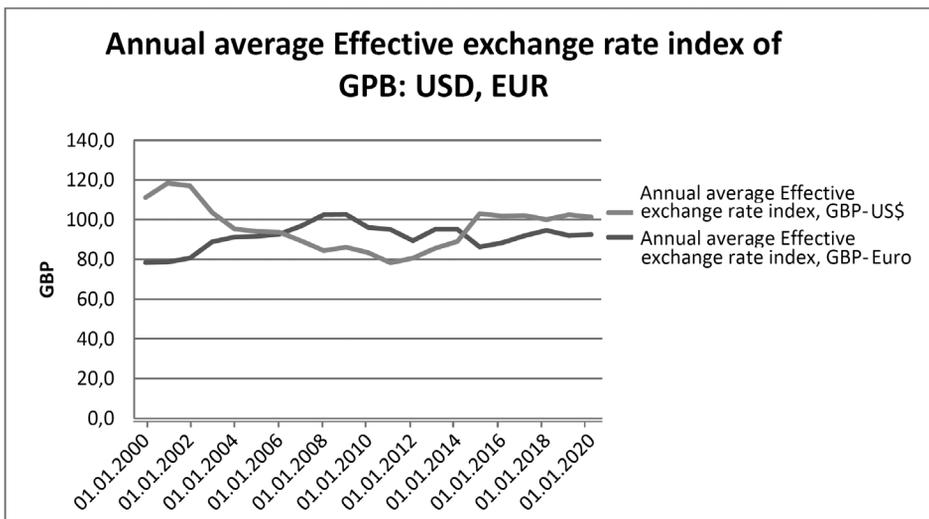
Economic trends

Figure 2 demonstrates the dynamics of the UK GDP and, for comparison, the EU-27 GDP over the last fifteen years. The indicators demonstrate that the UK GDP has been stable, so we must conduct a deeper analysis of the other data to evaluate the effect of Brexit.

Figure 2: UK and EU GDP.

Sources: Office for National Statistics (2021d); Eurostat (2021c,d).

Figure 3 demonstrates the annual change in the value of GBP in relation to currencies such as USD, EUR. Over the years, the UK currency exchange rate has been relatively stable and has remained so despite the coronavirus pandemic and the exit from the EU. This nominal exchange rate stability stems from robust macroeconomic fundamentals, which endow stability to the UK's monetary system. Further evidence of this process is seen in GBP to EURO indices since 2016.

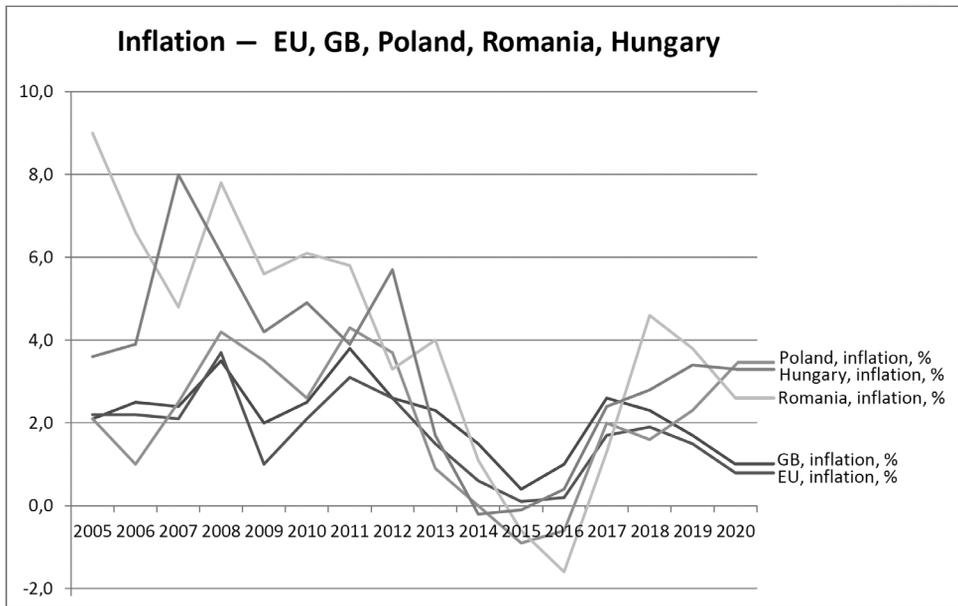
Figure 3: Exchange rates.

Source: Bank of England (2021).

The next indicator is the inflation and price index (Figure 4). An interesting trend can be traced from 2005, which clearly reflects the stability of the British financial system, with an excellent result for inflation in the range of 0.4% to 2.1%, which falls on the lower limit of the norm (Figure 5). From 2015–2017, there is an increase in inflation, however, this trend

shows fluctuations within the permissible norm of 1.0–2.5%. Inflation in some EU countries outside the Eurozone ranged from 1.0% to 9.0% (Romania), while the UK strictly kept this indicator within the natural rate of 0.4% to 3.8%. This indicates that inflationary processes are not necessarily associated with Brexit and that inflation rates in the EU, and the UK are convergent. This is to be expected as the ECB and the Bank of England practise inflation targeting. It should be noted that the EU average inflation rate reflects the consolidated result of all EU countries, which is not representative, but rather serves as a generalised conclusion. In this case, one should focus on the existing significant imbalances in the economies of the EU countries, and the solution to this problem is often brought to the level of the more developed EU countries, at the expense of which the data are averaged.

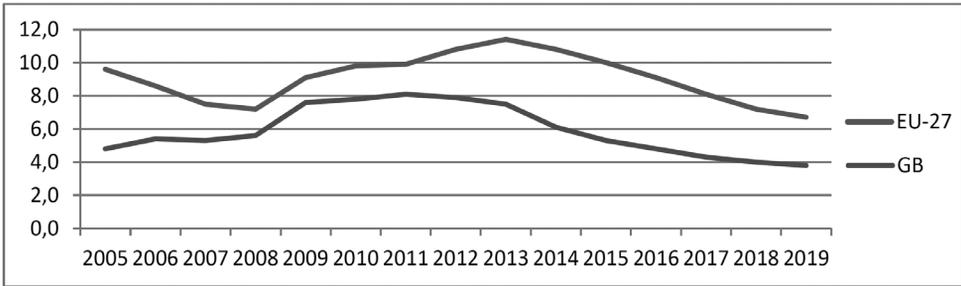
Figure 4: Inflation trends.



Sources: Office for National Statistics (2021c); Eurostat (2021a; 2021b: p. 76); Statista (2021a); *Uroven' inflatsii v stranakh mira v 2020 godu* (WWW).

During the period 2005–2019, aggregate employment/participation rates in the working population of the UK, were significantly greater than in the EU-27 countries, as shown in *Figure 5*. These data essentially characterize the UK as highly diversified large mature economy. The speed and success of the UK vaccine rollout is yet another feature of a highly developed economy, where pathbreaking British scientific innovations and working practices enabled the rapid distribution of vaccines. The UK is also a leader in Artificial Intelligence and robotics which are set to be the drivers of increased total factor productivity in future economic growth. These are country specific comparative advantages independent of membership of the EU.

Figure 5: Unemployment statistics.



Source: Eurostat (2021e).

A reasonable conclusion from inspection of these indicators is that the UK Economy is stable, mature and underpinned by robust fundamentals. Dominant growth fundamentals, nonetheless, may be negatively affected by significant shocks in the trade sector. Trading relations are now considered.

Trading indicators

Throughout its centuries of history, Britain has held a leading position in the international trade. This trading position to a large degree was due to the British Empire and its eventual transformation into the Commonwealth. Moreover, the British monarch is the nominal leader of major economies like Canada and Australia. Moreover, as Head of the Commonwealth, the monarch possesses privileged access to India and Africa. These historical links are significant and should not be disregarded. Figure 6 shows the trading trends over the past 15 years. Despite the negative value of the foreign trade balance, during this period, a positive trend prevails, in fact since 2016 Britain has been significantly increasing its exports, which has gradually reduced its negative trade balance.

Figure 6: International trade.



Source: Office for National Statistics (2021a).

The Brexit decision may change the priority of trading partners. As *Figure 7* indicates, approximately 50% of trade was with the EU. This will perhaps now be readjusted, because the UK seeks to establish new trading relations with the USA, Asia, China, other global markets. Taking into account the size of the UK economy, there are obvious opportunities of expanding these markets.

Figure 7: Leading UK trade markets in 2020, exports and imports.



Source: Statista (2021b).

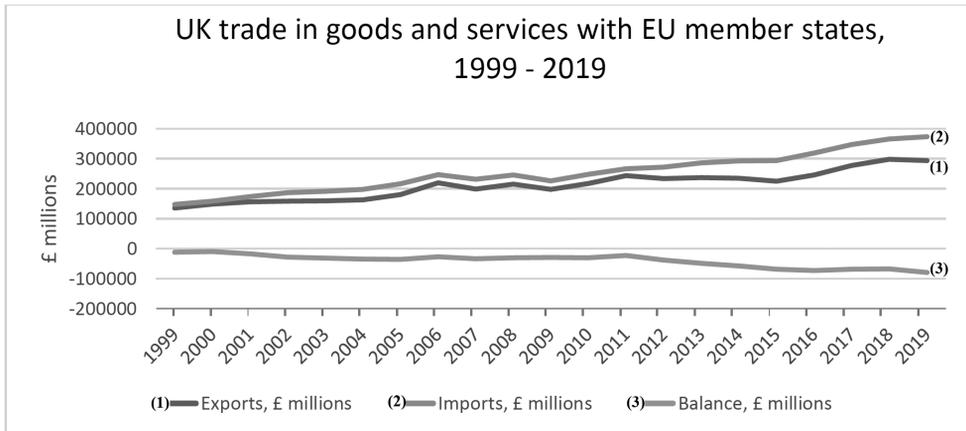
The major component of UK trade involves goods and services. These key indicators are now examined. Inspection of the data presented in *Figure 8*, reveals that the balance in industrial sectors has declined since Brexit. However, a major sector currently is the financial sector which measures nearly 4 trillion pounds a year to the UK. Two important issues that will impact the future for both the EU and the UK are the ability to continue passporting their services into the other party's territory and the ability of the UK to clear euro-denominated trades. This is because the European derivatives market stands at more than \$830 trillion as of 2019 with the majority of European trades being cleared using London-based clearinghouses. London must therefore fight to retain its status as one of the world's leading financial centres. "Already, the legacy of the UK's divorce with the EU is being felt across the City with billions of dollars of share trading having already moved to exchanges on the continent as well as billions more of derivatives trading headed to New York. Some estimates put the amount that shifted towards the continental bourses on the first day of trading this year at £5.3 billion" (Jones 2021).

Could this prompt the UK to look elsewhere going forward? "Around 40% of the UK financial-services sector's trade relies on the EU at present, but it now seems likely that

this figure will fall. As such, the UK is likely to be motivated to forge stronger business ties with Asia and the United States" (Jones 2021). To quote the Barclays chief executive, Jes Staley: "I think Brexit is more than likely on the positive side than on the negative side [...]. What the UK needs and London needs, is to make sure that the City is one of the best places, whether [it is in terms of] regulation or law or language, or talent. I think what London needs to be focused on is not Frankfurt or Paris; [it] needs to be focused on New York and Singapore" (see: Jones 2021).

However, it is likely that "currency trading should remain largely unaffected by Brexit, with London continuing to be the dominant global hub for this business". Given "the time-zone advantages that the UK has that allows London to serve both Asia and the US as well as the clear advantages it holds over the EU in terms of existing infrastructure and sheer concentration of currency-trading entities all located" in London, it seems unlikely that Brexit will diminish London's world market share foreign exchange trading. Nonetheless, even with the possibility "that London will be unable to stem the outflow of a significant volume of business and jobs to the continent as a result of Brexit, all is not lost". There will be a period of time, which "will undoubtedly be crucial in determining the City's long-term status, but with key businesses still likely to thrive and a renewed focus on global opportunities, the UK financial-services sector can still retain its reputation as one of the world's leading venues" (Jones 2021).

Figure 8: Trade.

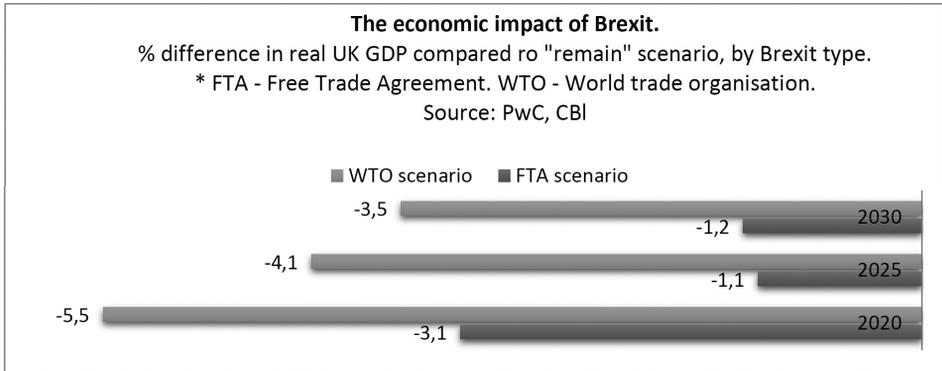


Source: Ward (2021).

In 2016, an analysis was carried out by *PricewaterhouseCoopers* (PwC), on behalf of the *Confederation of British Industry* (CBI), which assessed possible scenarios of the impact of Brexit on the UK economy. The data are contained in the PwC report (see: Hunt et al. 2016), which considers two scenarios: maintaining EU trade relations within the FTA

(which forecasts a decline in GDP in 2020 – 3.1%), or within the WTO (which forecasts a decline in GDP in 2020 – 5.5% (see Figure 9).

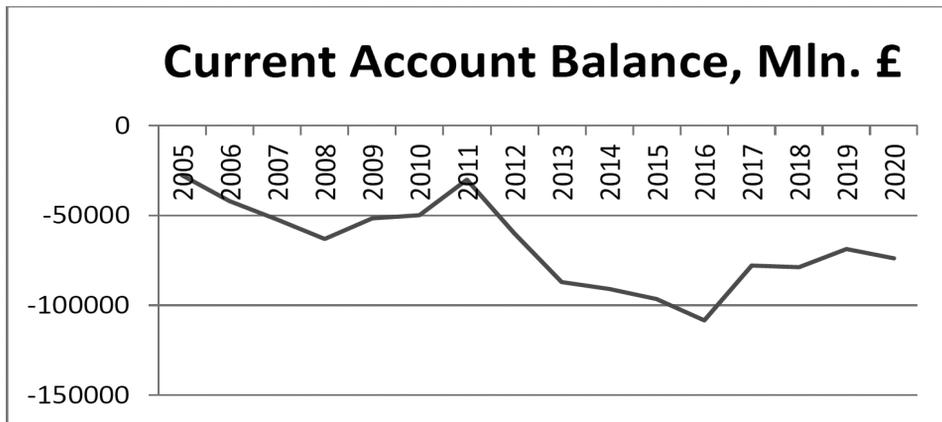
Figure 9: Economic impact of Brexit.



Source: Armstrong (2016).

In the context of the existing trade relations with the EU, one of the factors, such as the devaluation of the GBP from the level of 88.5 GBP per 100 EUR on 31.12.2016 to the level of 92.6 GBP per 100 EUR as of 31.12.2020, made it possible, among other things, to make goods and services are more competitive, which led to a decrease in the negative balance of payments. In international trade, partners such as the EU and the US, whose export share in 2020 amounted to 66.8% according to the data in Figure 10, allows us to further consider their status as traditional UK trade markets.

Figure 10: Balance of payments.



Source: Office for National Statistics (2021b).

Economic prospects for UK after Brexit

On March 3, 2021, British Prime Minister Boris Johnson, in his Foreword to *Build Better: Our Growth Plan* outlined the important developments needed to underpin future growth. His belief is that the post-Brexit future is an exceptional opportunity for the UK around the world: "And we will seize the new opportunities of a Global Britain outside the European Union to make our own regulations, to access global talent, and to forge new trade deals for Britain all around the world" (HM Treasury 2021: p.7).

Build Better: Our Growth Plan highlights the investment in infrastructure as an integral part of economic growth, in which £100 billion will be invested: Attention is also paid to R&D development and innovation led by Top British Universities (two in the top five of the world) (Times Higher Education 2021). From a global perspective, attention is drawn to the need to develop international trade relations, including through the UK chairmanship in the G7, as well as including interaction with the WTO and providing support to exporters: "Cooperate with partners to inspire and shape international action on our domestic priorities, including through our G7 Presidency and COP26. [We have an] openness to free and fair trade, working internationally to strengthen the multilateral system and the World Trade Organization and using preferential agreements and bilateral trade relationships to directly expand trading opportunities for UK businesses. [We aim to] develop a new export strategy to align our support for exporters with our plan for growth and sectoral priorities, opening UK Government trade hubs in Scotland, Wales and Northern Ireland and increasing UK Export Finance lending capacity" (HM Treasury 2021: p.14).

An important part of the economy is also the UK's comparative advantage in various industries, ranging from pharmaceuticals to artificial intelligence, financial technology: Leading innovative and high growth sectors: "The UK has strengths in a diverse set of industries. An international reputation for science with strengths across sectors, including pharmaceuticals, aerospace, creatives, financial services, and professional and business services; and in emerging industries such as AI and fintech. The UK is home to some of the best businesses in the world and we are leading the way on the path to net zero" (HM Treasury 2021: p. 20).

Of particular importance is the global role of the UK, which, after leaving the EU, gains new independent opportunities for trade and cooperation around the world: "Global Britain: the UK's prosperity is built on our integration into the global economic and financial system. Following our exit from the European Union, we can also take advantage of the opportunities that come with our new status as a fully sovereign trading nation. We will role model free and fair trade, ensure the UK remains a leading destination for global investment, and support opportunities for trade and collaboration" (HM Treasury 2021: p. 27).

Analysts cannot predict the future, and the UK could prosper or suffer economically after leaving the EU. The signs were that it had a good chance to succeed, but the coronavirus pandemic has made any forecasting more difficult. The positive sign for the UK is that despite the pandemic, the FTSE has recovered. Inflation and unemployment

has risen less than expected, and all economies will need to confront the same problems as the UK. The rise of robotics and AI are changing the trade, and long logistic chains may become things of the past.

Conclusions

The purpose of the EU has always been perceived differently (subjectively) by the EU and the UK. The UK has always seen the EU as an economic union whereas the EU has always had, since its foundation, a political union in mind. It illustrates the difference between a federation and a confederacy. As such, the reality (constructed) of the EU was always different for the UK. The UK system is one of parliamentary sovereignty. A political party is elected, its leader is designated Prime Minister and it uses its majority to pass laws which are then legally signed off by the Monarch. It was not designed to handle referenda. After the Brexit referendum, there was a paradoxical situation where parliament were broadly against leaving and the people were broadly for leaving. This caused great constitutional problems and there was much agitation between the people and its elected government. Another issue was that Scotland (taken as a whole) voted to remain. This exacerbated the divisions that already were developing between the parliament at Westminster and the devolved parliament in Edinburgh. These are examples of what happens when two contrasting systems of control simultaneously occur, and this is the conclusion of the paper – the breakup had a “cybernetic” cause. This is despite the many successes in the European Union such as:

- Ease of travel. It is most convenient to be able to travel, e.g. from Warsaw to Palermo without any border restrictions. Passport or visa controls and custom declarations. Also, if one undertakes such a journey, it is of great benefit to know that for any citizen who has paid his taxes, any accidents or illnesses can be treated in any European country without money having to be paid upfront. The health systems of each country will take care of it.
- Maintenance of borders which is of great concern to countries such as Poland whole borders have been frequently violated over the centuries. Notwithstanding the breakup of Yugoslavia in the 80's, there have been no wars on EU soil for 75 years. This is hailed as a great success. Whilst not decrying this, one questions whether this is due to the EU or NATO. Is it NATO, backed by America, that has preserved the peace since the second great war? The UK is a founding and important member of NATO and has no intention of leaving it.
- The well-being of citizens of the EU which has risen over the period of its existence. But again, one may question if this would have happened because of the superb advantages in medicine, manufacturing and global trade.

The future is always impossible to forecast as the rapid advance of technology and intelligent software are changing the way we live and society in general. Robots are becoming a major part of production and their proliferation will result in great losses in employment. They will also allow more local production and change the nature of

Trade, Transport and Tariffs. The survival of any organisation will depend on being able to react quickly to changing external factors. It can be argued that this is done more easily by a smaller than a larger organisation. According to Lucas Jr (1976) and Keynes (1937), inferences from econometric times series data are likely to be seriously impacted by structural/collateral/stability/policy/completeness issues such that the time series model is likely to confront fundamental parametric changes which are problematic for producing accurate results. Econometric modelling of time series, especially in the context of abrupt breach is fraught with complications. To this extent, the data analysis can only go so far as to imply possible outcomes. More generally, there is no "true" economic case for or, against Brexit on theoretical grounds. So, the Brexit decision is entirely a political judgement, being a trade-off between sovereignty vs. socio-political stability. The political problems associated with the Brexit separation highlights ramifications of the Arrow's Impossibility Theorem (see: Arrow 1950) whereby a substantial vociferous minority on the remain side effectively postponed the "breakaway process" for some years.

The British and the Europeans have a common history and many, many shared perceptions. There is no enmity at the level of the populace, and it is hoped that over the next few years will see a new union emerge. This will not be the same as the present one but will reflect a more cooperating and shared humanity. Political analysis of human history reveals that there has always been a conflict between the rights of the individual and the greater society. In establishing whatever political system that exists in a country, the problem of accountability has played a prominent role. It seems that members of a society are willing to concede control to a centre if that centre can be questioned and if necessary be replaced. Any system where these conditions are not in place (even if they are illusionary) will not survive.

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