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EIIW 2015 = 20 years of award-winning research

Book *An Accidental BREXIT*: precise economic analysis from the author who anticipated the Euro Crisis 18 months before its start



Hotel Renaissance, Brussels, June 27th, 2018

*EUref disorderly *NoDeal BREXIT *New cost estimates *Why Global Britain will not work *Trump's

Trade Policy: Sharper Conflicts Upcoming *Results from Deutsche Bundesbank-sponsored research project, *EU Reforms

Key Aspects of the book *An Accidental BREXIT* and Role of Protectionist US Trade Policy

- 1) By mid-June 2018 – four months ahead of the critical October deadline for an agreement - the British government has been unable to come up with a clear proposal on certain issues in the withdrawal agreement. **The UK is facing a dangerous slow-down of the BREXIT process** which could make financial markets more volatile in autumn 2018 and 2019; this volatility could have a **destabilizing overlap with negative stock market dynamics facing enhanced negative impulses from an aggressive US trade policy.**
- 2) **The political basis of BREXIT is very weak** since the 2016 referendum was disorderly. For reasons which remain unclear, Cameron suppressed the findings of the Treasury Study info of April 2016: BREXIT=10% income loss; not a single word on key findings appeared in the 16-page government brochure. **The normal result – based on UK popularity functions/10% info - would have been 52.1% for Remain on June 23.**
- 3) There has been an intense debate over **EU immigration** which Mr. Cameron portrayed as being a major burden for the UK. However, the OECD has shown that immigration to the UK actually brings **net benefits for the British budget**. This has not prevented Mrs. Theresa May – who had been the Home Secretary (interior minister) in the Cameron governments for six years – from repeating the claim about the massive long-run EU immigration burden in the White Paper of 2017 which, however, also shows a graph according to which non-EU immigration had been the dominant phenomenon. The anti-immigration rhetoric of **Cameron has mainly served to create a scapegoat for the massive cuts in government transfers to local communities after the Banking Crisis**: - 3.5 percentage points of national income which resulted in **an under-provision of local public goods; and this problem was then blamed on EU immigrants.**
- 4) The strong infighting within the UK government is one problem; another is that the **Global Britain strategy emphasized by the May government looks quite unconvincing and unrealistic as President Trump** is undermining the World Trade Organization whose dispute settlement procedure will become ineffective from 2019 as the US has blocked the election of new judges to the appellate body. **Without a functioning WTO, the Global Britain strategy is bound to fail** as the UK is too small to solve potential future trade conflicts on the basis of bilateralism. The UK accounts for less than 2.5% of world gross domestic product (GDP) at purchasing power parity.
- 5) There is considerable **risk that the UK will leave the EU under a No-Deal scenario** which would impose very high costs on the UK: **16% to 25% of real income losses** over the long run (see EIIW paper; and a Rabobank study, respectively, for more info see http://www.eiiw.eu/fileadmin/eiiw/Daten/Publikationen/Gelbe_Reihe/disbei234.pdf; <https://economics.rabobank.com/publications/2017/october/the-permanent-damage-of-brexit/>; http://www.eiiw.eu/fileadmin/eiiw/Daten/Sonstiges/Brexit_Monitor.pdf).

- 6) With BREXIT, the EU will lose 1/5th of the community's national income so that it will no longer be the world's largest single market – instead, this will be the US where President Trump seems determined to destroy the post-1944 multilateral system and to replace this **with a new system of great power rule**; with the US being supported by 'vassal countries' from Latin America, Europe, Asia, Africa and elsewhere. **The UK could face a situation where it would also become the vassal of the US ("reverse colonialism").**
- 7) **Financial instability could be a major international problem – BREXIT uncertainty plus destabilizing impulses from the US** – via an aggressive trade policy on the part of the **Trump Administration** – contributes to financial market instability. EIIW research (sponsored by Deutsche Bundesbank): paper Korus/Celebi shows by employing an event methodology (http://www.eiiw.eu/fileadmin/eiiw/Daten/Publikationen/Gelbe_Reihe/disbei243.pdf) that "hard BREXIT news" has a much stronger impact on the British Pound than more favourable "soft BREXIT news". Moreover, the empirical paper from Welfens/Baier (<http://www.mdpi.com/2227-7072/6/2/46/htm>) shows the impact of BREXIT on inward foreign direct investment inflows (2017: UK FDI inflows -92%, compared to 2016). More on our website.
- 8) **EU/Eurozone reforms are urgent and they require reforms that go beyond a traditional view of the principle of subsidiarity** (the priority of the national policy layer over the supranational policy layer). The EU should adopt broad institutional reforms, including stricter admission criteria for Eurozone membership and a stricter implementation of national debt brakes; **plus a higher EU budget (e.g. for infrastructure, defence)** – which so far represents only 1% of GDP. The latter is a key problem since the *FG Wahlen* – a German expert group on voting behaviour – has shown that voters at national elections easily understand what the key political fields are, while at the European elections a majority of voters indicate that they do not understand what key policy fields are relevant at the EU level; with insufficient EU spending in Brussels, there is a tendency to vote rather strongly for radical parties as a means to express general dissatisfaction with national governments. These radical parties won the European elections in the UK and France in 2014 and the radical, right-wing start-up party AfD obtained 7% in Germany. These parties then reinvest the reputation and funds gained in Brussels into national elections so that the EU becomes a source of political radicalization in Europe and creates the self-inflicted need for a strange 'grand coalition' within the EP until the day comes when an anti-EU majority will dominate.
- 9) **The US banking deregulation under President Trump, combined with new UK deregulation** after 2018, will create pressure for excessive deregulation in the whole of Europe and therefore **risk of a Transatlantic Banking Crisis 2.0**. Joint EU28 regulation remains crucial, but the Bank of England is not always cooperative in this regard (ESRB).
- 10) **The G7 disagreement at the meeting in Charlevoix in Canada** in June 2018 – and the subsequent escalating threats from the US of high import tariffs against Chinese trade - shows that the West could be disintegrating; Trump's trade policy is aggressive, his experts (from the Reagan era) think that conflicts with China could be solved along a similar path as the trade conflict with Japan in the 1980s; this is nonsense and **Wilbur Ross' lack of experts in the Ministry stands for a dangerous gap of US competence.**

PS: About true lies in the BREXIT campaign: On September 17, 2017, Sir David Norgrove, Chair of the UK Statistics Authority, wrote a **letter to Foreign Secretary Boris Johnson** concerning the alleged £350 million in weekly EU contributions emphasized as being available for the NHS by the latter in an op-ed and in his pro-BREXIT campaign, stating **"This confuses gross and net contributions...It is a clear misuse of official statistics"**.

As regards Trump's complaint about a high merchandise trade balance deficit (4%), this view is misleading. Rather the balance of goods and services plus net factor income from abroad (+unilateral transfers) is adequate: this **current account position** was a deficit of 2.4% of GDP in 2017. This is of no real concern for the USA as 1% is financed from the US \$ reserve currency status. However, **Trump's tax & expenditure policy raises** the US current account deficit – a self-inflicted problem for which the EU is not responsible. [The multilateral system should be defended by the EU as this supports stability and global prosperity.](#)