‘COMMENTARAO’ in the “Telegraph”

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### “Brexit and the Future” by S L Rao

The idea of the European Union was to end the cycle of wars between neighbours. Their culmination was in the First and Second World Wars. There ware 55 conflicts in Euroope in the 19th century and 53 in the 20th till 1945. With the development of awesome weapons of mass destruction , everyone recognized that they could destroy the world. Wars had to be avoided. The different nations of Europe had to get together. Post-war years were dominated by the Cold War between East and West. NATO was a binder for these European countries as allies with the USA and UK in security arrangements.

In 1950 the European Coal and Steel Community and BENELUX began to unite European countries economically. The six founding countries were Belgium, France, Germany, Italy, Luxembourg and the Netherlands. Treaty of Rome created the European Economic Community (EEC), or ‘Common Market’. They stopped charging custom duties in this community. They also exercised joint control over food production. The result was economic growth in Europe and surplus agricultural produce.

Denmark, Ireland and the United Kingdom joined the European Union in 1973. The EU region enabled the transfer of huge sums of money to create jobs and infrastructure among poorer members. The European Parliament increased its influence in EU affairs and in 1979 all citizens could elect their members directly. Greece became the 10th member of the EU, and Spain and Portugal followed five years later. In 1986 the Single European Act provided the basis for a vast six-year programme aimed at sorting out the problems with the free flow of trade across EU borders. In 1989 the Berlin Wall was pulled down. Borders between East and West Germany opened for the first time in 28 years. Unification of Germany followed. In 1993 the Single Market was completed with the 'four freedoms' of: movement of goods, services, people and money. The 1990s were also the decade of two treaties: the ‘Maastricht’ Treaty on European Union in 1993 and the Treaty of Amsterdam in 1999. The ‘Schengen’ agreements allowed people to travel without having their passports checked at the borders. The political divisions between east and west Europe finally healed when 10 new countries joined the EU in 2004, followed by Bulgaria and Romania in 2007

The Euro is now the new currency for many Europeans. During the decade more and more countries adopted the Euro. It required growing power for the European central bank and general agreement between countries on fiscal management.

The fiscal audits were unsatisfactory as evidenced by the Greek debacle in 2015, caused by fudged deficit figures. Beneficiaries were the European private banks and investment banks like Goldman Sachs.The EU was increasingly subject to corporate influence in its policies. The functioning of its bureaucracy was increasingly opaque and not reflective of national interests of member countries.

Concurrently, trade barriers came down across the world and investments and credit flowed between them. Movement of people, goods, services, credit and money soared. The explosive growth of the internet and mobile telephony led to the instant flow of information and ideas globally. Globalization described the world at the end of the 20th century. Alongside, inequalities of income within countries grew, banks lent unwisely and the world economy was in trouble by 2008. In Europe the working classes were the worst hit. Their government funded social welfare schemes. With rigid labour legislation there was inflexibility in wage costs and low productivity. In this situation the free flow of people was an irritant. It was from the recently joined and economically poor and backward East European countries in the EU, to relatively prosperous countries like the UK. This caused distress and resentment among their working classes. It was heightened by the welcome accorded to Muslim, mainly Syrian refugees, with very different cultures, education and poor skills.

The UK was never an easily consenting partner in the EU. It took years to join the Coal and Steel Community and the EC. This is exemplified in a speech by Prime Minister Thatcher in 1988 in Bruges, in which she rejected "a European super-state exercising a new dominance from Brussels", She was out of office by the time the Maastricht Treaty was signed by her successor John Major in 1992. This involved huge transfers of power to the new European Union. Britain secured opt-outs from the single currency and the social chapter. But, for many British (and others as well), it undermined the British tradition of the inviolable sovereignty of Parliament. The resentment boiled over in the referendum in 2016 when the majority voted to leave the EU. However the divorce will take two years and renegotiation of 50 or so treaties before it is complete.

It could also lead to the partition of the UK as Scotland that wants to remain in EU, might secede. The UK referendum could also make other dissatisfied nations-Nederland, Spain, Portugal, even France-demand exit or renegotiation of the European treaties. At least for a few years economies of Europe and the UK will be seriously stressed.

UK could reverse the decision by another referendum. This is unlikely given its democratic traditions. Scotland and possibly Northern Ireland could secede and exit the United Kingdom, leaving Britain as a small nation of England and Wales. Another possibility is that Brexit could be in name with the four freedoms of the EU. Continuing. Europe accounts for half of British trade. Britain is a major partner for EU. The more likely solution to the referendum result is a series of agreements that continue British contribution to EU budgets, continue with migration but with no social benefits entitlements, zero tariffs, no Euro for UK, no representation in European Parliament. For the EU relaxations are essential since other countries are unhappy with present arrangements.

In any event, unless Brexit is abandoned, the sterling and Britain’s position as financial centre will decline. Britain might face more unemployment, with deflation. This could lead to greater tourist inflows and investment in real estate from India and other countries. Britain’s contribution to NATO will fall. Europe will turn more towards Russia especially for oil and gas. Already declining American influence will decline further. British trade and investment will diversify more towards India and the Commonwealth, China, and English speaking countries.

India must work towards stronger relations with key EU countries and negotiate new trade and investment arrangements with EU. Some Indian companies in Britain might move to EU countries. Banks in Britain will cut staff there and move into EU. EU investment might increase into India from UK. There could be more employment opportunities for Indians in UK.

Brexit will signify a serious setback to globalization. Bilateral trade and investment arrangements between countries will increase. There could be a further setback to global economic growth and a shift in economic power to Asia.

It is imperative in this situation for banks to be run more strictly in terms of viability. At the same time globalization of the mind will continue to increase with the expanding and faster internet and telephony. This could help investment flows. Smaller and more efficient production facilities are likely with the help of information technology. Employment in services and small and medium industries as suppliers to the new production centres will increase.

Brexit is a major milestone to a changed global economy as we know it.

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