Musings on #Brexit and the EU

Black Label Logic | 24 June, 2016 | by Black Label Logic

In the preceding months I have followed this story and today we finally got the result. Great Britain is leaving the European Union and taking their chances as a Sovereign nation once more. This obviously has ramifications, seeing as the European Union project in the way bureaucrats do, have had their fingers on the detail level of governance for the 43 years that Britain has been a member, and it will take time to reverse the damage. For those of my readers who are not aware of the structure of the EU, it is based on 3 pillars, the common market, the Euro and the Schengen agreement. The joint European market is supposed to guarantee the 4 freedoms, free flow of goods, persons, services and capital between the countries, and to some extent it did lower the barriers from being a national company to an international company, but in other ways EU regulations tended to make sure that only multi-national companies were able to bid and be successful.

The concept of a joint economic market sounds like a great idea, everyone can trade across borders and thus it gives companies the opportunity to sell their goods to more people. This sounds great until you realize that EU regulations favor large multi-national companies, over single-country companies, meaning that a country that has a lot of industry organized in small and medium size companies will lose out to countries that are the homes of large multi-national companies. In addition, once you add international trade agreements such that open up the European market to among others China, you have spelled the death of hundreds, thousands or tens of thousand of local, regional and national companies in your own country. This is without even taking into account that fully industrialized countries such as Germany, gain the benefit of exporting goods to under-industrialized countries, which creates a much harder competitive climate for start-ups and industries in the under-industrialized countries.

The disaster that is the Euro could fill entire books. The shared currency does make sense, after all most of us dislike having to change money when we travel, having to figure out what bills are what, and do exchange rates in our heads whenever we shop. A shared currency across very different nations with very different financial policies and principles could not end well. Some countries are established financial and economic superpowers, others are laying with a broken back after Soviet domination for a generation. Some have long histories of conservative, frugal and sensible financial policies, others have histories of going through state-bankruptcy every 20 – 30 years. Some could use a currency of lower value, some would like one of higher value. Greece would have loved to be able to devalue their currency following the financial crisis.

Greece and the other PIIGS countries got hit hard by the 2008 financial crisis, which in many ways was the first shot fired across the bow of the Union ship. Countries that had long been able to borrow money in the markets at rates that did not accurately reflect the risks, suddenly could not pay their debt. Unlike when this had happened before, they couldn't devalue their currency and use the means and methods available to a country with their own currency, they had to "*take the hit*" and accept the cutbacks that the central authorities demanded of them. Europe, during the financial crisis saw jobs disappear, either from bankruptcies or being moved to countries that have lower wages and less regulations, many people lost their jobs or had to accept cuts in their wages. The worst part was that these are the people who experience the communism of capitalism, they get the least upside when the going is good, and the worst hits when the tide turns. These are also the people who got hit the hardest when the second shot rang out, the people who through the free flow of labor has faced more competition for their jobs, declining wages, a reduction of the middle class. The people who rely on the public services such as healthcare and unemployment to be their safety net, who are seeing and experiencing the effects of previously unseen levels of migration into the Schengen area. What few mention is that the million who were welcomed by Germany, the over 100.000 welcomed by Sweden, and so on, will be able to freely move around Schengen in a few years.

The core problem

When I started learning negotiation many years ago, one of the first rules I was told by my mentor at the time was "*always try to find a deal that is a win-win for all the involved*" this not only means making the deal is easier, it also tends to result in people sticking with the deal and the intentions behind it. However, with the EU the people were sold on that free flow of labour would result in a form of "risk-hedging" in that if your national labour market was in trouble, you could get a job somewhere else in Europe. This was clearly a win for the state as the generous welfare states of Europe can scarcely afford having large amounts of unemployed, and would be better off if those people got a job somewhere else. It was sold as a win to the working and middle-class in that their risk of becoming unemployed would be less and that their skills would be equally valued in all of Europe. In practice, it resulted in the low-skilled jobs in countries such as Britain that have high wages compared to the former soviet states, became dominated by people from the former Soviet states that drove out the indigenous working class. The free flow of capital was sold as "more people can invest in your country", the reality became as it always is that capital flows to where it can earn the highest returns, which in the last 15 years has been from the West to Asia, where the jobs have been created.

If we drill down at the problem, we find that while some people are truly global citizens, and derive large benefits from a global world, most of the population are never going to move far away from where they were born, they may visit other countries on vacation, they may spend a year or two abroad as students or retire to a nicer climate. However, factory workers who lose their jobs in Liverpool are not going to move to Guangzhou province in China to take up work in a factory there. However, the Chief Financial Officer who was the change agent in closing the factory in Liverpool would happily move there. Investors and other people involved with fiance love being able to diversify their investments in global markets or to be able to utilize whatever tax regime is the most beneficial at the moment, money has no loyalty or nationality. Like a serial killer crossing state lines as a forensic countermeasure, the money crosses national borders as a financial accounting countermeasure. The bureaucrat in Brussels, leading the charge for unifying European laws and standards today, may find himself elected to his national parliament or made ambassador in a few years, to him where he works, and what he does is flexible in every regard.

The EU is based on the principle "*We are better in aggregate*" which to draw a parallel to a corporate restructuring is like telling the people you just laid off "*It sucks for you, but all of us who still have our jobs are doing better*". Most people tend to view things in terms of how am I doing, how is my family doing, how is my town, state and country doing. Very few people who do not spend most of their time in an office in a capital somewhere, or in the concrete skyscrapers of international business, do not ask themselves *"How is the internal European market doing considering the recent international trade agreements"* This is the disconnect, between the globally oriented politicians and business-people, and the people they govern and employ. European captains of industry and politicians do not see the effects of their decisions on smaller communities. It may be the case that a united Europe is stronger when every country within the union is taken into account, but this is like the old adage on the difference between communism and capitalism. Capitalism is unequal distribution of fortune, and communism is equal distribution of misfortune. This is a demonstration of incentive theory in practice, where large parts of the population are left outside, looking in at those who gain great benefits from the European Union and a global world.

The people of these countries were sold a promise that access to a European market would mean more jobs for their country and a strong economy for their country, of which they would share in the prosperity. The reality is that it enriched a few, but impoverished many more. In the aftermath of #Brexit, the European Union has to return to their think tanks and find a new deal that benefits every single individual within the member states, not just the politicians, bureaucrats and the financial elite.
