

## Relevant Economic Dimensions of Brexit\*

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*Péter Halmai (ed.):*

*A Brexit forgatókönyvei és hatásai*

*(‘Brexit Scenarios and Impacts’)*

*Dialóg Campus, Budapest, 2020, p. 302*

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The subject of this book is of fundamental importance for, among other things, the development of European integration. Brexit provides an empirical example of possible European disintegration, and this work offers a key to a comprehensive understanding of the process and the conclusions to be drawn.

Generally prepared before the British exit was finalised, the studies included in the book, analysing Brexit and its possible directions, were updated several times before publication. (This is why the book includes not one, but two forewords by the editor, Péter Halmai.) The main discourse presents Brexit in a comprehensive manner, while the individual units review all of Brexit’s relevant economic dimensions. The first three essays provide a detailed ‘natural history’ of the political and economic discussions that framed the pros and cons of membership, leading up to the decisive national referendum in which the British people ultimately voted to leave. The remaining studies present the main themes of the book, providing a detailed analysis of the broad economic, financial and trade issues related to Brexit.

The book is part of a broad academic discourse on the economic and wider implications of Brexit. Its chapters reflect on the processes of Brexit in a highly objective way, drawing on independent research or comparing and analysing secondary sources. With a style that is clear, highly readable and easy to understand, the texts are easy to follow, even for the layman. The structure of the book follows a strict logic. The chapters build on each other, but are also easily understood individually.

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\* The papers in this issue contain the views of the authors which are not necessarily the same as the official views of the Magyar Nemzeti Bank.

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The backbone of the book is clearly the string of studies that review and assess the economic and trade situation in the aftermath of the UK's exit, providing both context and complexity. In the following, we review these studies.

*Péter Halmai's* thorough, multifaceted, monograph-like study begins the exploration of the economic implications<sup>1</sup> (*The Economics of Brexit*, pp. 83–208). He argues that the UK's membership in the EU had a number of very beneficial economic effects, particularly in terms of trade and attracting foreign direct investment. The aggressive propaganda during the pre-referendum campaign, which warned of disadvantages, did not cover the facts. The country's most dynamic economic growth since the Second World War coincided with the decades of UK membership. With regard to the contribution to the common budget, which was the cause of much controversy, the author's conclusion is that the UK's financial commitment represented a modest net burden compared to the size of the economy. In addition, the payment rules negotiated in 1984 improved the UK's net position. The cornerstone in the assessment of Brexit is an objective exploration of the economic issues. An analysis of the EU's financial relationship with the UK can provide an objective measure of the truth of the claims made during the campaign. It can also provide ammunition for a factual rebuttal of anti-globalisation and anti-integration voices. The second part of the chapter looks at the outlook for both a 'hard' and a 'soft' Brexit. In fact, the two terms suggest that the British have basically outlined two paths for redefining their relationship with the European Union. This issue in itself has proved almost as divisive as leaving the EU itself. According to pro-exit politicians, once Britain is no longer a member of the EU, it no longer wants to be part of the EU's single internal market or customs union. The other way would have been institutional cooperation (differentiated integration) that would have better reflected trade and economic integration. The chapter also looks at the restructuring of financial services, one of the most crucial consequences of Brexit. In this respect, Brexit is clearly a negative shift, as London used to be a dominant actor in the European financial sector. Deciding about the closeness of the future relationship, as well as about the boundaries, scope and reach in which the British will have access to the EU's internal market is a very sensitive issue. In addition, the UK also had to lay the foundations for its future trade relations. The paper concludes by discussing how the UK economy can recover from the shock of the sudden termination of a deeply embedded and stable partnership. According to the author, the negative consequences of the exit will be protracted and long-lasting. The UK economy faces a number of competitiveness, financial and structural challenges. Managing them outside the EU will be even more difficult.

*Péter Halmai's* study identifies and then elaborates on the possible directions of change in the complex and multifaceted system of economic and trade relations.

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<sup>1</sup> On the topic of Brexit, in addition to this study, see also *Halmai (2018)*, *Halmai (2020a, b, c)*.

The author puts all of this in a broader perspective that also reflects the arguments presented by the prominent figures of 'deglobalisation'. With a high degree of objectivity, factuality and professionalism, he describes the financial and economic situation of the United Kingdom and the uncertainty and instability engendered by its departure, which are the paradoxical opposite of the expectations.

The essay by *Andrea Elekes* looks at the changing landscape of financial services. These processes have a major impact on the UK and London's financial market 'ecosystem' and could have a significant impact on British competitiveness. The author reviews the abrupt consequences for the British people of a 'hard' and a 'soft' Brexit, and then analyses in detail the effects on competitiveness. Elekes points out that there will be a number of transitions and systemic adjustments that will place an even greater burden on the financial system, in addition to the need to adapt to an ever-changing environment. This could hamper competitiveness, as well as the ability to adapt quickly to customer needs and the new regulatory environment, which will, consequently, lead to increasing costs and a temporary loss of competitiveness.

*Gábor Kutasi's* study focuses on the effects of Brexit on the exchange rate, and, in particular, its consequences for Hungarian workers. The issue has great importance from a general British perspective as well, given that a significant proportion of EU nationals have provided the UK with skilled labour in occupations that require highly skilled workers or are plagued with labour shortage. Actually, British productivity has benefited from migration. The chapter uses the economic theory of labour migration as a starting point to point out the catalysts for economic emigration, the resulting changes in the host economy, the importance of integration and the reasons why the UK is a popular destination for workers. Kutasi uses empirical analysis to explore the relationship between the Hungarian labour market situation and the changes in the exchange rate of the British pound. The study may help to understand the motivating factors behind the emigration of 'Hungarians in England', often mentioned in public discourse. The author also looks at the financial incentives that may change their perceptions and affect the expectations related to their return. In the final chapter of the book, Kutasi and his co-author review the impact of Brexit on exports and on Hungarian foreign trade indicators.

The study by *Erik Szarvas* presents the implications of Brexit for the UK's WTO obligations. An overview of this topic can contribute to an understanding of the potential for an independent UK trade policy.

The volume of studies edited by *Péter Halmai* explores in great depth the root causes of Brexit and its economic implications for both the European Union and the United Kingdom. In my opinion, the aim of the work is fully achieved, since it succeeds in providing a comprehensive picture of the dynamics and expected

outcomes of events, taking into account all subsystems and aspects, without making any dubious predictions. The authors capture the essence of the problem – its ‘core issue’ – very well. They provide a picture of the problems that are unfolding and the difficulties that are likely to arise, in a series of studies that build on each other and expand on the subject.

Conversely, perhaps less attention than warranted is given to the economic dynamics that preceded Brexit.<sup>2</sup> From 2007 onwards, UK growth fizzled out and productivity growth stalled. Occurring in parallel with the effects of the global economic crisis, this led to a slowdown in real wage growth, income redistribution and rising inequality. These overlapping and reinforcing processes fuelled anti-elite and anti-globalisation sentiment, and were ultimately decisive in shifting the political arena towards populism.

The strength of the book is that the in-depth analysis is written in a language that is accessible even to readers with limited knowledge of economics, trade policy and finance. The well-illustrated, informative studies provide insights into the wider context and possible consequences of this highly complex international event. The authors have taken great care to provide an academic framework for a political and economic debate that is very heated and extreme, and which has severely constrained the discourse on the consequences of the British exit.

Nevertheless, I believe that further research in this area would be extremely interesting and useful. Economic and social processes in the post-exit period, together with the dynamics of EU-British relations, remain an area of research with great potential and many knowledge gaps. It goes without saying that such research is extremely time-consuming and, due to the complicated nature of the subject, requires very complex scientific activity, as well as meticulous, protracted coordination.

In summary, the book is a thorough, informative, coherent and well-argued account of the phenomenon of Brexit, together with its controversial and important consequences. An example of the disintegration of the complex processes of globalisation and the emergence of anti-globalisation, Brexit has a continuing impact on the economic and political life of the UK and the European Union. This in-depth analysis of Brexit helps us better understand the social, political and economic workings of our world.

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<sup>2</sup> These issues are discussed in detail in *Halmai (2020a, b, c)*.

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