

The Long and Winding Road to Brexit

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A historic vote took place earlier this summer when Britain voted to leave the European Union after a 40-year partnership. In order for Brexit to become official, Article 50 of the Lisbon Treaty must be invoked which allows each side to determine the terms of the split. Britain's new prime minister, Theresa May, has stated that she will not move forward with this process until 2017. Once each side settles on the terms of the split, it will then have to be agreed upon by all 27 national parliaments. It will likely be 2019 or beyond by the time Britain finally, officially, exits the European Union. Until then, EU law is still in effect for the United Kingdom.

Mapping Out the Road to Brexit

One could ask ten people in Britain why they voted for or against the Brexit, and they'd likely receive ten different answers. In the end, there are three main areas that led to the split.

Economics

Many that are against the EU find it to be a faltering and dysfunctional economy that shows no signs of real growth. Southern Europe is experiencing an unemployment rate of 20%, for example. Britons felt that staying with the EU would only drag their economy down further.

Nationalism

The rise of nationalism plays a significant role in the Brexit as well. Many Britons no longer trust multifunctional financial, trade, and defense organizations that rose to power following WW2 (such as the EU, IMF, and NATO). Most feel that these organizations no longer serve a useful purpose and that they limit a nation's power. These led to a lack of trust and even fear against the EU in Britain. This thought process was bigger than just the EU, however. Many who voted in favor of the split felt that the British leaders could no longer control the direction the country was headed.

Politics

This faltering belief in the country's leaders came to a head with the 2015 election. Voters began to pull away from the Conservative and Labour parties as each felt staying with the EU was the best option. A third party (Ukip, made up of members from the former two) formed promising the leave the EU behind.

Another issue dealt with the immigration process. Beginning in the early 2000s, there was an increase of European migrants to the UK after the acquisition of Eastern European countries. People poured into the country and jobs were filled, which worked until the market crashed in 2008. Living standards began to falter and resentment among the British took hold. Many feared that this could increase the likelihood of terrorist attacks in Britain.

Effects of Brexit

Once Brexit is official, Britain will surrender access to EU's open markets, leading to trade and investment losses. The fate of London as a "financial hub" is up for debate as Europe is currently Britain's top export market and largest source of foreign investments. Other members of the EU may impose trade regulations against Britain. There may also be a slowdown in growth and productivity as Britain will lose affordable immigrant labor.

However, while most feared that Brexit could create a financial crisis, the markets currently seem unaffected. Immediately following the Brexit vote, all major U.S. indices dropped around five percent due to U.S. investors trading out their holdings of equity for a safer bet. A week later, the drop reversed, and within two weeks, the S&P 500 index reached an all-time high. Many feel there was no lasting impact to the U.S. economy because only around 15 percent of the U.S. GDP is connected to international trade. The other factor dealt with U.S. investors anticipating a rate increase from the Fed, but that was put on hold following Brexit, leaving markets wiggle room in liquidity.

There is also the chance that other disgruntled members of the EU will follow the path of Britain and seek departure. Such a move may very well have a larger global impact, but for now, there is only speculation as to what will occur when Brexit is official.

Sources

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