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## **Brexit: A consequence of the European social and democratic deficit**

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### **Abstract**

The outcome of the recent referendum in the UK was straightforwardly affected by the policies followed by the EU. The main factors in which eurosceptics-populists had used in order to collect votes were both the immigration crisis (and the consequent EU policies) and the European political reactions to the economic crisis which increases EU powers, under the German supervision, and decreases national sovereignty. Although these two factors may seem different, they are directly linked as long as they comprise an outcome of the social and democratic deficit of the EU which increased concerns about the future effects in the UK and offered the opportunity for the cultivation of populist ideas. This article aims at indicating the main parameters of the European social and democratic deficit which affected Britons' decision in the referendum while drawing the attention on the restructure of the European policy directions.

**Key Words:** Brexit, social deficit, populism, crisis

## **Austerity as a crucial factor**

The outcome of the referendum in Great Britain brought once again to the surface of the international political debate some key issues for the very existence of the European Union (EU). Moreover, it has significantly highlighted the crucial political and economic insecurities of the European integration process. Undoubtedly, Brexit means that the EU is actually losing not only one of the largest and economically robust member, which comprise 12.8% of the total EU population and 12.57% of the net payments to the EU budget (HM Treasury, 2015), but also and most importantly, it loses London City which is one of the major global stock exchange and communication centers in the world.

Undoubtedly, the marginal outcome of the British referendum which led to Brexit was a result of the growing Euroscepticism which was cultivated by right-wing populists in response to the growing refugee crisis and the rising fears against terrorism. It is also noteworthy that the public opinion in the United Kingdom (UK) was deluged by an odious campaign of famous conservative people and by the xenophobic right wing UKIP party. However, it is very simplistic to assume that the verdict of the British people in the referendum did not have any relation with austerity. Therefore, it is true that the lower socio-economic groups in the UK have been primarily affected by the severe cuts of the welfare state which were implemented the last five years (Butterworth and Barton, 2013; Taylor-Gooby, 2013). Since 2015 mass protests against the austerity measures that Cameron government implemented have intensified in Manchester and London. The demonstrations were against cuts in the health system, social housing and stressed extensive concerns about the future of the young generations. Cameron government contended that during its incumbency, the economy recovered and shows 2.3% growth while unemployment is held at an official 5.1% rate for 2015. The importance of welfare cuts implementation can be also seen in the recent resignation of the Labor Minister Ian Duncan Smith, as a result of intergovernmental differences about social issues. Specifically, cuts in benefits for long-term patients and disabled were planned and were entirely repealed by the government after the resignation of the Minister. It is also noteworthy that the government from the very beginning, approached austerity as a matter of upgrading morality in the sense that it reduces welfare dependency, restores continence and encourage creativity and individual initiative (Schiller, 2013). But ordinary people in

the UK do not necessarily associate austerity and their own social status just with Cameron policy but in several occasions, with the EU policy of budgetary restrictions from the beginning of the economic crisis.

Cameron government actually followed Merkel policy which considers that development is not an opposing concept to fiscal stabilization but rather the two concepts are closely connected. In the same direction, the Conservative government in the UK thought that the British economy could achieve an “expansionary fiscal contraction”, meaning that cutting public spending may increase private spending. As Finance Minister Osborne (2010) noted, “modern economics understand the importance of expectations and confidence. Businesses and individuals have turned their gaze to the future and while there are not absolutely rational creatures, as the Ricardian equivalence theory assumed, uncertainty about future paths of tax rates and government spending strongly influences their behavior. This is especially true when it comes to consumer spending and business investment ... a credible fiscal consolidation plan will certainly have a positive impact due to greater certainty and confidence for the future”. This view is supported by the International Monetary Fund (IMF), which also considers that if public deficits are not reduced, development is impossible to be encouraged because deficits increase the concerns of investors about the debt and thus intensify the tendency for savings by reducing consumption and concomitantly, unemployment increases and productivity reduces (Ostry, Ghosh and Espinoza, 2015). Therefore, deficit reduction is based on this key concept for its relation with development (Miller, 2010). Thus, it is not surprising that the British Left was divided before the referendum with one part only to be opposed to Brexit particularly because of the xenophobic hysteria expressed by the right-wing campaign. However, the other part of the British Left advocated Brexit as long as it considered the EU as a quintessential of social injustice even by presenting the example of Greece where EU leaders, from the beginning of the crisis, simply ignored public verdict and imposed harsh austerity measures. For this reason Jeremy Corbyn, the Labour Party leader, was accused for being half-committed to the Remain campaign (The Economist, 2016).

Surely, it would have been wrong to confine austerity as the dominant factor which forged the decision in favor of Brexit and definitely “those who voted for ‘leave’ did it for many and partly contradictory reasons, from concerns about migration and as a

reaction to 'Brussels bureaucracy' because of massive disinformation of the British media to concerns about their benefits protection and (many others in South and South East England) in order to promote a more entrepreneurial Britain with global reference" (Lavdas, 2016). Besides, it is noteworthy that Britons have already expressed their concerns about immigration by noting that immigrants are receiving more benefits from the welfare system than they contribute (Dustmann, Frattini, Hall, 2010). Politicians who supported Brexit were aware of such mainstream opinions of the British society, and tried – successfully – to exploit the immigration crisis even more in order to construct the argument that through Brexit a controlled immigration policy will be achieved (see, for instance, Frank Field's article on the Guardian, 14/06/2016).

Although it seems that immigration crisis conducted extensively to the final decision, it turns out though, that austerity contributed to a marginal but crucial manner, which finally tilted the balance in favor of Brexit especially, inasmuch as the restrictive policies that Germany promotes were used by the political forces that express the British populism in order to collect votes in favor of Brexit. In other words, in the UK the actual effects of austerity were not so influential as the rhetoric and propaganda used by the populist forces. In any case, Brexit can be considered, particularly from the southern countries (France, Italy, Greece, Portugal), as a great opportunity to create a front against the austerity policies that led the EU to the stalemate of Brexit and to change direction and foster development, democracy and social policy, as a way to rescue the European project. It is clear that the same direction is also followed by the European social democracy, with the president of the German SPD, Vice-Chancellor and German Economy Minister Sigmar Gabriel to point out that "if we want to save Europe we should return to an agenda with emphasis on democracy, development and social justice" and to argue that Brexit can become "an opportunity for the restart of Europe", stressing out that it is expected a debate on austerity to be opened and "Germany must do more about it ... within the federal government we should discuss again how we can improve the life of people in Europe, this is the only way to reduce Euroscepticism" (Imerisia.gr, 2016).

Beyond the far-right xenophobic propaganda which was essentially relied on fear and partly on the promotion of enemy figurines, the result of the referendum in the UK reveals that the European institutions have lost their real meaning, as a result of the

undemocratic procedures followed by the EU leadership which ignore the social needs and follow faithfully the interests of multinational companies and banks. Exactly this fact was the main factor which led a large part of the electoral base of the Labour Party not to follow the official line of the leadership and consequently, voted for Brexit. Surely, austerity was not the dominant reason for the result of the referendum, considering that even the conservative successor of Cameron is unlikely to change the economic policy direction. Nevertheless, the legacy of austerity that Cameron government carries and the hegemonic German policy of imposing austerity across Europe, boosted potential refusal trends towards European integration. Unfortunately, the first victims of the referendum would not be others than the socially vulnerable and the socio-economically lower migrant groups. Populists, especially of the right, are definitely pushing towards more disintegration as they believe that the achieved European integration created a significant social and economic divergence (Liddle, 2016). The explicit example of this opinion is the achievement of populists in the UK, who have used immigration and socio-economic divergence as the main factors towards voting for Brexit. Thus, it is not surprising that in regions with low or stagnant income growth the majority was anti-EU (Financial Times, 2016).

### **Preliminary effects**

Already, however, the tones generated by the EU against the UK are intensified and declare a clear denial against special privileges as regards access to the internal market. Also, the impact from Brexit on the EU is not insignificant. For instance, the coverage of the consequent financing gap for the EU budgets will sufficiently charge Germany, France and Italy, which are major contributors. Furthermore, according to IMF projections, several economic shocks or a synchronized slowdown are possible, which are expected to create significant negative effects on the international economic cycle and should be addressed through “well-coordinated oversight and global financial safety nets” (International Monetary Fund, 2016:207). With the weakening of the British economy, further negative economic effects are expected for the countries which are still facing the consequences of the financial crisis and have

close trade connections with Britain, such as the Netherlands, Ireland and Cyprus (Global Counsel, 2015).

The exit of the UK from the EU is a crucial part on the European integration history, which, up until the UK referendum, had only inputs. The biggest risk is political than economical and is related with the strengthen of there-nationalization trends in Europe by the increasing anti-European populism of Marie Le Pen, Geert Wilders and Nigel Farage (Klein, 2016). However, there are detailed analyses (Schult, 2016) which conclude that Brexit will have disastrous consequences for the UK but great advantages for the EU. According to such opinions the positive consequences could be:

Firstly, Brexit may become a deterrent for any imitators. Even if right-wing populists such as Geert Wilders in the Netherlands and Marine Le Pen in France, achieve the conduction of such a referendum in their countries, citizens are expected to vote for remaining in the EU as long as the negative news for the UK economy increase their fears. The first negative consequences include the fall of the British pound and the downfall of the UK by rating agencies. Specifically, the change from stable to negative of the outlook for the creditworthiness of the UK by Moody's (Moody's, 2016), the decline of Britain's long-term credit rating from "AAA" to "AA" by Standard & Poor's, putting also a negative outlook (BBC, 2016) and the downgrading of the UK Long-Term Foreign and Local Currency Issuer Default Ratings to "AA" from "AA +" by Fitch Ratings with a negative outlook in the wake of the referendum (Fitch Ratings, 2016a), presage severe turmoil for the British economy. Furthermore, Fitch has downgraded from "AA +" to "AA" the evaluation of the Bank of England (BoE), with a negative outlook (Fitch Ratings, 2016b).

The deterrent effect is naturally associated with a harsh EU negotiating strategy against the UK which, as already stated by the German Chancellor Merkel (Süddeutsche Zeitung, 2016), will not allow any selectivity in the sense that a clear difference must exist between an EU member state and a country that is no longer a member. Merkel (Süddeutsche Zeitung, 2016) also pointed out that the negotiations with the UK should not be conducted according to the principle of selectivity and that no country should expect that, after the exit of Britain from the EU, the obligations can be deleted but the privileges still remain, by mentioning as an example the access

to the EU internal market. According to this opinion, anyone who wishes to access, should accept the four fundamental EU freedoms, namely the free movement of people, goods, services and capital.

The second positive consequence of Brexit is that the British would no longer block the European integration process in areas such as the economic governance in a way that national decisions will not endanger the common market. This requires common economic governance. Similarly, in the field of foreign and security policy the increasing needs for military operations require the establishment of permanent common governance which all member states have accepted in the past except from the UK. Foreign policy needs additional simple majority in order to make decisions. Moreover, the refugee crisis stressed the need for the establishment of a common European border police, a common legal framework for asylum and a fair distribution of refugees.

### **The European social and democratic deficit**

Beyond late and obviously immature estimation, Brexit certainly comprise an alarm for conscious Europeans in order to stand united and continue the path to the European integration. In any case, the British verdict shows that various objections exist about European integration. Certainly, in Britain refugee crisis was a crucial parameter which affected the electorate as long as lower income groups feared not to lose their jobs by the cheaper foreign labor force coming from Europe's internal market and the European obligation to accept refugees has increased this tension.

Clearly, fear generally lacks a rational basis. However, the current European leadership did nothing to reduce the factors which influence people to fear the European integration and refugees. The setting which feeds negativity against Europe is actually socio-political and is related with the broader social insecurity and precariousness (Standing, 2014; Wilson and Hadler, 2016) which have been increased amid crisis in Europe along with the democratic deficit (Bellamy and Kröger, 2012; Crum, 2013; Habermas, 2012). Britons voted against the ruling character of the European Commission which can impose to the UK rules, norms and sanctions which

are not subject to the judgment of British voters. Brexit campaign systematically raised the necessity of regaining sovereignty and the populist right-wing politician Boris Johnson presented himself as a top fighter for Britain's liberation under the slogan "We will take back control" (Giegold, 2016).

Certainly, Britons never lost control of their sovereignty but they feel that they do not clearly know the ways important decisions concerning their country are made. Currently, the major European problem is the lack of transparency and immature democracy (Giegold, 2016). A typical example is that while Britain is one of the strongest countries in the most powerful European institution, namely the European Council, Britons seem to be unaware of their governmental positions and their influence on specific decisions, as long as European Council holds closed meetings without protocol and required approval and consequently, without public exposure through the European parliament (Giegold, 2016).

A second example is that the European Parliament is not included in decisions on major issues and also does not seem to have a complete initiative capability. Therefore, it cannot submit its own drafts of law in order to be voted through a legislative process. It is obvious that populist politicians such as the UKIP leader Nigel Farage, in a country with an extensive parliamentary tradition, encounter no difficulties to exploit the European democratic deficits and cultivate a vision that the UK flexibility in implementing national policies is constantly being controlled by Brussels.

### **The German sovereignty issue**

Admittedly, a crucial issue which bothers not only Britons but also most European citizens is that the balance of power within the European institutions, particularly those related to financial stability and economic policy at the EU and Eurozone level are actually controlled by Germany (Beck, 2013). The Federal Republic of Germany as "primary creditor" controls the Eurogroup, the Euro Working Group, the European Council, the Councils of Ministers, strongly influences the European Commission and has a special relationship with the IMF and the ECB. To this end, Wolfgang Schäuble as the representative of the German economic policy, has a leading role within the

European institutions which make decisions (Mavrozacharakis and Tzagkarakis, 2015).

France, Italy and some other countries unsuccessfully try in several cases to counteract and mitigate the German influence, as shown in the Greek issue. This framework works tightly on the negotiating ability of any country that inconsistently attempts to reverse the situation, conclude, amend the rules or change the terms of an agreement. The current Greek government has extensively encountered this suffocating experience and decided to conduct a referendum as an attempt to open the negotiating field. However, the effectiveness of the referendum was reduced by the emitted messages mainly from Germany. In this case Schäuble—whose statements are usually reliable compass orientation for European institutions – had unequivocally expressed that the negotiations after the referendum, independently from its result, will start from the beginning and will include tougher conditions (Mavrozacharakis and Tzagkarakis, 2015). Similarly, after Brexit, the UK is threatened with tough negotiating conditions.

Under suffocating German leadership conditions, the central European financial governance process was promoted at the time that David Cameron, the former Prime Minister of the UK, insisted on increasing the sovereignty of the EU member states through enlargement of the powers of national parliaments. Partly by completely ignoring the British complaints, Angela Merkel, Francois Hollande and Matteo Renzi along with the other European leaders, tried to create the next steps towards a European central state, by introducing a form of a European economic governance, a European social policy and a European protective policy of deposits and funds. The purpose of this project was to unite the German obsession for monetary stability with the French intention for increase of the investments. Obviously, Germany remains the main actor of this process, which after 2010 imposed the austerity dogma in the Eurozone (Beck, 2013; Patomäki, 2013) while failed to cover its institutional deficit. Currently, Germany attempts retrospectively to cope with this problem in order to increase competitiveness in the Euro area through the transfer of even more power from national states to the European Commission (Mavrozacharakis, 2016).

By strengthening the Eurogroup, which is an adjacent institution outside the democratic process as it is not directly elected by the European citizens, significant

questions about legitimacy are being raised, related both with the formal functioning of the institutions and the role of extra-institutional interventions. It is actually confirmed that this is an attempt to cover the inadequate institutional effectiveness of the Eurozone through institutions and arrangements that have limited legitimacy, as they are mainly technocratic and democratically elected (Habermas, 2012), and lead to the creation of an informal and shadow government under the leadership of Germany (Mavrozacharakis and Tzagkarakis, 2015; Mavrozacharakis, 2016).

Currently, the abovementioned form of governance includes Angela Merkel, Francois Hollande, the IMF, the ECB, the president of the European Commission Jean-Claude Juncker, the president of ESM Klaus Regling and is often complemented by other heads of state, technocratic institutions and institutional representatives. Atypical intergovernmental institutions of this type often substitute the formal European institutional structures in crisis management. The recent Greek example comprises a tangible proof. When the Greek government demanded political resolution around the Greek rescue plan, it essentially legalized the informal council of Merkel, Hollande, Lagarde, Draghi and Juncker in cooperation with the Brussels Group, to function as a governmental intermediary channel. Consequently, this procedure led to the preparation of an institutionally unregulated proposal, incredibly anti-social, which exceeded even the narrow framework which was followed by the Troika. To a certain extent, this example is indicative of the governmental framework related with Eurozone's future that Germany intends to create. Beyond the informal directorate which is actually in operation, measures such as the creation of an independent fiscal authority within the Eurozone that will collect taxes independently from national governments, is being discussed (Patomäki, 2013). The abovementioned political framework lead to an unsuccessful and socio-politically weak policy for the European future, designed by Germany. It should not be underestimated that SYRIZA has won the elections in Greece as a consequence of increased social anger against economic reforms promoted by the insistence of Germany which were concentrated to austerity. The German reform of the European policy finds no majorities in European populations but rather tends to strengthen radicalism and national populism (Chopin, 2015).

The common market area is exposed to the risk of a circular and permanent austerity and Germany tries to avoid this danger only with imperfect bureaucratic solutions and only by the implementation of the quantitative easing policy by the ECB, it is impossible to maintain a relatively satisfactory level of liquidity. Fiscal policies the austerity paradigm and public investment are necessary (De Grauwe, 2015). Therefore, in the question whether Germany is blameless about the situation that prevailed in the UK, the response is negative because “the feeling of a German-Europe (combined with the blatant misinformed portion of the British Media) had a significant impact on the elderly voters, in particular in England and Wales ...” and “the intensity with which certain .... who supported Brexit defended their choice with reference to the Berlin power” is frightening (Lavdas, 2016).

### **Tentative Concluding Remarks**

Social and democratic deficits in the EU institutions and the sense of a German-Europe can be considered as two of the main factors which increase populism across Europe. Therefore, the most important conclusion about the result of the British referendum is that there is a strong necessity of returning to the vision of a social Europe and the democratic reform of the European institutions. Thereby, strengthening the European integration would be based on social and democratic legitimacy. Brexit may therefore become an opportunity for Europe to overtake some of its serious structural, institutional and democratic weaknesses in order to reduce euro-skepticism and the tendency for re-nationalization of Europe. But this confrontation can hardly be realized if the European vision does not regain its social and democratic dimensions.

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