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BREXIT, THE CITY, AND THE CRISIS OF CONSERVATISM

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Thanks to the role of money and entrenched class power in electoral processes, the history of liberal democracy is not exactly littered with instances of the people springing nasty surprises on the powers in the land. That, however, was precisely what the British electorate did on June 23, 2016 when it voted to leave the European Union in the face of impressive ruling class and political establishment opposition. So far, notwithstanding these powerful forces and currents seeking a reversal or dilution of the referendum verdict – including practically all party leaderships, most of the educated middle class, and the powerful financial sector that has historically dominated British capitalism – it appears to be sticking.

True, in his resignation speech the day after the referendum, Prime Minister Cameron postponed Brexit implementation until after the Conservatives elected a new leader at the autumn party conference. True also that when Theresa May emerged as leader and Prime Minister much sooner than expected, she further postponed the date when negotiations for Britain's exit from the EU would be triggered under Article 50 of the Lisbon treaty until the following year. However, such stalling could only go on so long: the popular verdict had to be implemented

and European leaders were demanding an end to the uncertainty. In September, as the eventful summer of Brexit drew to a close, and normal life resumed in London and Westminster, Mrs May announced on the opening day of the Conservative Party conference that Britain would trigger Article 50 before March 2017, and that Parliament would soon repeal the 1973 act of British accession to become effective upon completion of the negotiations.

However, opening negotiations under Article 50 will only start the clock ticking on a two-year window. So it could be 2019 before Britain exits from the EU and the intervening two and a half years will give those who would obstruct, stall, divert or reverse the implementation of the referendum verdict plenty of opportunities. So Mrs May's announcement represents less a plan and timetable than a positioning in the potentially gruelling struggles to come. It is not possible to predict their outcome; there are simply too many forces at play, within Britain and the other 27 EU countries and too many uncertainties, particularly economic ones. What we can do, however, is try to understand the forces at play, their strength and motivations. To do this, we must begin by understanding why the referendum was called in the first place.

Cameron's High Stakes Poker: Staking the Country for Party Gain

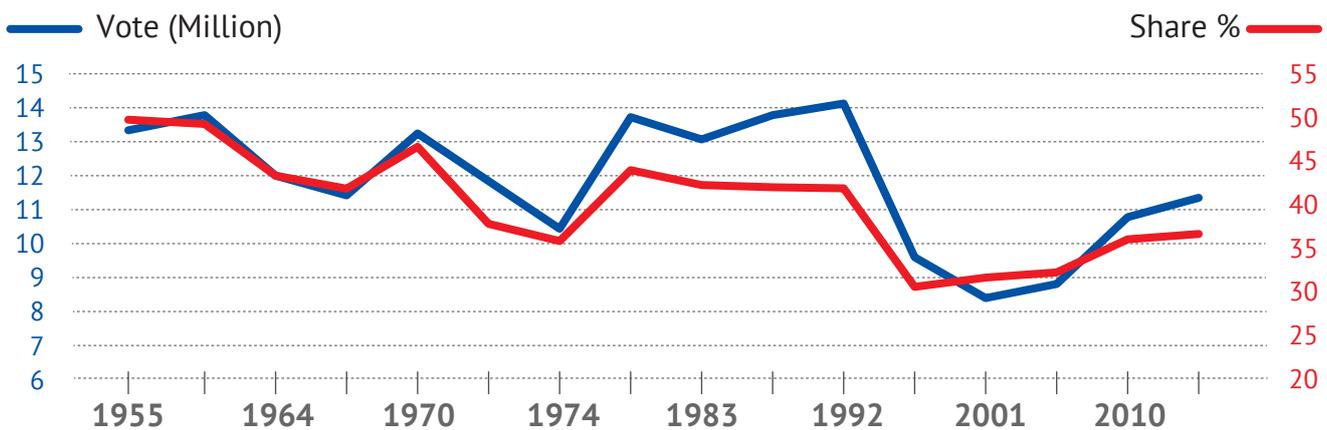
The naïve might be forgiven for imagining that an important referendum with such a potentially damaging verdict would not be called lightly, that such a move would be justified only if divisions over EU membership had become so acute as to overwhelm political life leaving no other way to resolve them. So it may come as something of a surprise to many that the referendum was called in response to an entirely inner-party problem of the Conservatives.

Two things came together to cause this problem. The first is that, since it peaked in 1955, the Conservative vote (Figure 1) has shown a secular downward trend, in the share of the vote, and in absolute numbers despite a growing electorate. Secondly, while EU membership and its terms have regularly caused inner party conflict in both major parties, the Conservatives have been particularly prone to them. Unlike some other European countries, where small and large property is politically represented by different

parties, in Britain the Conservatives are the party of property in general, small and large (Gamble 1974). They are, therefore, particularly susceptible to the chasm that separates the interests and perceptions of big and small capital, which the EU has widened further (Baker et al 1993). Differences

over the EU brought down Mrs Thatcher, contributed to the inner party wrangling that kept the Conservatives out of power for 13 years, ended Cameron's political career, and could also determine the longevity of Mrs May's tenure at Downing Street.

Figure 1. THE CONSERVATIVE VOTE: ABSOLUTE NUMBERS AND SHARE OF THE VOTE



To make matters worse, the anti-European United Kingdom Independence Party (UKIP) began drawing votes away from the Conservatives' right flank from the early 2000s onward, making it difficult for them to win parliamentary majorities despite the first-past-the-post electoral system which had hitherto bestowed parliamentary majorities on parties with little more than 40% of the popular vote. The result was that, despite all Labour's troubles, the Conservatives could only get to Downing Street in 2010 by forming a coalition with the Liberal Democratic Party.

In 2015 David Cameron was campaigning to win a majority. His party was aware that the key to winning the 2015 election was to win back those Conservative voters for whom the EU and immigration were major issues (Cowley and Kavanagh 2016). To this end, he promised a renegotiation of the terms of EU membership followed by referendum on EU membership on new terms as a way to entice voters back from UKIP. Though the need to placate anti-EU sentiment in the Labour Party was undoubtedly part of what motivated Wilson to call the 1975 referendum on the EU, the link was not so direct and the EU issue cut across party lines more cleanly. In contrast,

Cameron's promise of a new referendum was an internal Tory affair and entirely based on electoral calculations.

It worked. Having been rewarded with a majority in 2015, he proceeded to re-negotiate the terms of British membership, particularly playing up his efforts to control immigration to prepare the ground for winning the referendum to come. Actually, he achieved very little in these negotiations. He secured some temporary limitations on immigrants' access to social benefits. He extracted an acknowledgement that the euro is not the only currency in the EU, but little else to protect the City from unwelcome EU regulation. He was given a vague commitment to lower the administrative burden of regulation on business, some assurances that Britain was not obliged to participate in 'ever closer union' and a few concessions on sovereignty issues (Sparrow 2016). Nothing about the process or its outcome revealed that Cameron was doing anything more than going through the motions of renegotiation to propitiate anti-EU sentiment, that he was worried about losing, or that his efforts made any difference to how the two sides lined up against one another in the referendum that followed.

The Campaign: Racism versus Fear

The Remain side expected the referendum to be a walkover, with all major parties campaigning for it, nearly the whole of the quality press in favour, the support of most of the corporate sector and with the financial sector, the sector with the most skin in the game, fervently backing them. Instead it became a bruising campaign that claimed the life of an MP.

Probably sensing that Cameron's renegotiation had not really worked, especially on the issue of immigration, the buffoonish but popular former London Mayor, Boris Johnson, never known for his anti-European views and hitherto one of the party's most vocal advocates for City interests, decided to campaign on the Leave side. The previous year, he had decided against running for a third term as Mayor to concentrate on his parliamentary ambitions which appeared to include leadership of the Conservative party. Clearly, he had now decided that the shortest route there, and eventually to 10 Downing Street, was as one of the key leaders of the Leave campaign.

Working on ground well-prepared by Cameron during the 2015 elections and during the negotiations with the EU that followed, the Brexit campaign highlighted the immigration issue, liberally peppering it with racism and Islamophobia. Racism found a voice; the Brexit campaigners gave racism a legitimacy which fifty years of heroic anti-racist struggles, in which black and minority Britons played prominent leadership roles, had denied it. Racist attacks spiralled, with a marked rise in violent attacks on the persons and property of blacks, Muslims and recent European immigrants (Paaveen and Sherwood 2016). Labour MP, Jo Cox, a bright young star of the party, campaigning for Remain and against this increasingly racist platform, was murdered in public by a mentally ill man with ties to right wing and neo-Nazi groups.

Immigrants, the Brexit campaign claimed, particularly those from the EU, were taking scarce jobs and stretching Britain's social and health services to the limit and, as long as Britain remained in the EU, it could not control immigration. The Brexit slogan of taking control

back from the EU was read largely as control over immigration. Finally, the Brexiteers had no qualms about making fantastical claims about the amount of money which was being drained out to Brussels. Their claims that Brexit would save this money and that it would be used to improve social services, particularly the National Health Service, wore a little thin given the domination of the Brexit campaign by the hard right of the Conservative party.

For its part, the Remain side focused on two main things: it fulminated against the racism of the Brexiteers, seeking to discredit their position on that ground, and sought to bolster its case with fearful projections about the consequences of Brexit. The precise numbers that such projections included made them less, not more credible, calling to mind Tom Nairn's scathing comment on Britain's previous internal battle over EU membership: 'Politicians who in office had been consistently unable to estimate the balance of payments correctly to within £100m now knew what the price of butter would be in five years' time.' (Nairn 1972). The Trades Union Congress published a report claiming that the average British worker would lose 38 pounds per week from it, while panic in the Remain campaign two weeks before the referendum prompted George Osborne to threaten that he would be forced to impose £30bn in taxes and spending cuts if Brexit won (Asthana et al 2016).

Though both sides sought to incite fear, there was some justice in Boris Johnson labelling the Remain campaign 'Project Fear' – ironically a label originally used to describe the No side in the 2014 Scottish referendum. The fact was that the Remain campaign had very little else to campaign on. In the midst of multiple crises, the EU hardly cut an attractive figure. Since the Eurozone crisis erupted, the power of Germany and bankers was rampant. The 'troika' of the European Central Bank, the European Commission and the International Monetary Fund was imposing punishing austerity on the EU's periphery and subjecting Greece to a recession comparable in its effects to the Great Depression in the US. And Mrs Merkel's ham-handed

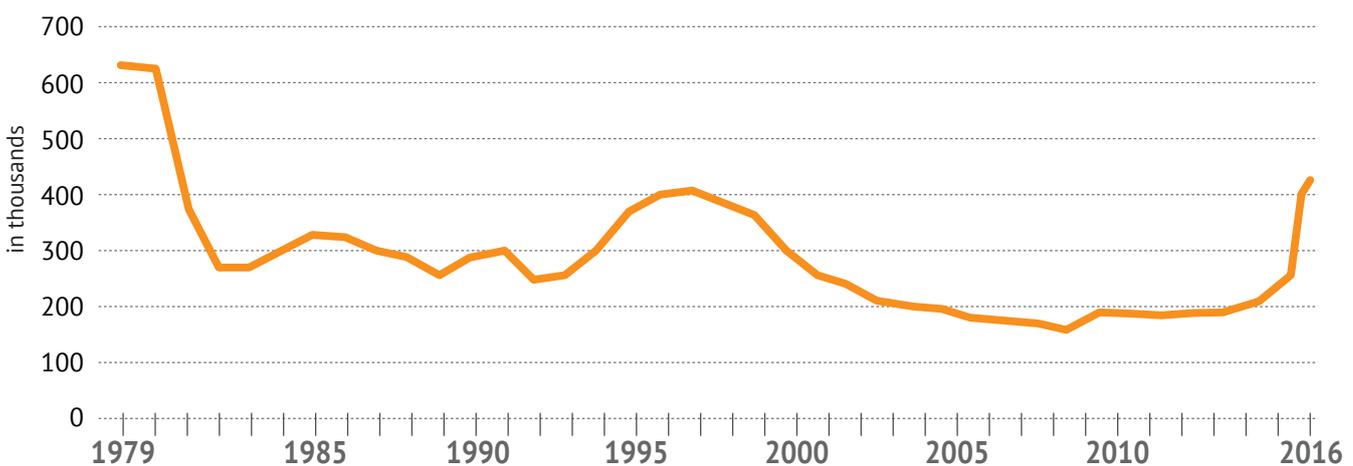
attempt to appear less monstrous and more angelic by letting in a million Syrian refugees as atonement for suffering imposed elsewhere had triggered a full blown refugee and migration crisis that now threatened to tear Europe apart in ways that even the Eurozone crisis had not. Given this, the Remain side was reduced to predicting disaster: Leaving the EU would make British society less cosmopolitan and tolerant, the economy weaker and isolated, and adversely affect science, culture and the arts and practically everything the British might hold dear.

If neither side seemed to touch on essential matters, this was because, on the one hand, the referendum had been called not to address any real problem the British faced but as part of a bid to restore the Conservative vote. On the other hand, the plethora of problems the British did face was largely home grown.

While it was true that the EU was a supra-national structure that enforces neoliberalism and austerity on its members to levels far beyond those national political systems could get away with, Britain's neoliberalism was both more extreme and more home grown, a result, in part, of the numerous

British opt-outs from EU arrangements. Equally, while it was true that financialization in Europe had caused the Eurozone crisis, Britain was not in the Eurozone and had a financial sector which, while benefitting precisely from its 'one foot in, one foot out' position, as we discuss in greater detail below, perpetuated a pattern of unbalanced economic growth accompanied by a social and regional maldistribution of wealth which was economically and socially unsustainable. Those who voted to leave were its victims. Practically the only major current in touch with these discontents, with some idea of what it would take to address them, was the new Labour leadership that crystallised around Jeremy Corbyn and John McDonnell. Corbyn's resonance with the victims of austerity found astonishing confirmation in both in the influx of new Labour Party members following his election, taking membership to 500,000 in three months from its post-war low of 180,000 under Blair (Figure 2). This was reflected in popular support, contrary to the extraordinary heights of distortion attained by the anti-Corbyn media in their attempts to paint a picture of an 'unelectable Corbyn'.

Figure 2. LABOUR PARTY MEMBERSHIP SINCE 1979 ¹



Source: House of Commons Library and <https://commons.wikimedia.org/wiki/User:Rwendland>

¹ NB: Figures are quarterly and are all from the House of Commons Library except the last, for September 2016. It is from <http://labourlist.org/2016/07/post-referendum-boost-means-labour-now-has-over-half-a-million-members/>. The Labour Party site says '380,000' but this cannot be relied on because the figure is not regularly updated.

In fact, between Labour's 2015 general election defeat and Corbyn's election as leader, Labour's standing in the polls fell from 35% to 30%, lower than under Brown, and then recovered almost

entirely over the next six months.² The subsequent decline in Labour's poll numbers to just below 30% was directly correlated with a crescendo of attacks on Corbyn from within the Labour Party, culminating in an unprecedented vote of no confidence by 172 MPs immediately after the Brexit vote on the trumped up charge that Corbyn had failed to campaign sufficiently zealously for Remain. This was simply not true. It was the betrayed base

of the Tory party and not Labour voters who swung the balance in favour of Brexit. On the other hand, it was seven years of Labour support for Tory austerity policies, followed by a ferocious and public campaign against the very leader who sought to reverse this stand, that deprived the Remain campaign of the one force which might have led it to victory: an anti-austerity Labour Party united behind its leader.

The Verdict: Protest Against Neoliberal Britain

On the morning of 24 June 2016, the British political establishment woke with a serious hangover. The previous night, the unthinkable had happened. Despite throwing its collective political weight against it, despite warning of the economic, political and social disasters that would issue from it, and despite their smug confidence in the British people's willingness to follow their lead, the referendum the previous day had delivered a clear verdict in favour of leaving the EU after 43 years of membership: 52% to 48% on a very respectable turnout of over 70%.

This result was a jolt, since polls taken since late 2015 had consistently shown a majority for Remain and though it dipped below Leave in the final two weeks of the campaign, it was back above it by referendum day (*Financial Times* 2016). When the votes were tallied some very clear patterns emerged. Scotland, Northern Ireland, London and some other major cities voted to Remain, the rest of the country leaned toward leaving.

No major media organization conducted exit polls and so detailed knowledge about who were Leavers and who were Remainers is based only on pre-election polls, though the unexpected result is not exactly a vote of confidence in them.

The one exit poll that was taken (Ashcroft 2016) does, however, broadly confirm the picture that emerged in public discussion both before and after the campaign. It would seem that there were majorities for Remain among the young (of whom relatively few voted), the employed, the university educated, those renting (rather than owning) their homes, the non-white, non-Christian and Labour, Scottish Nationalist, Plaid Cymru and Green supporters. The majorities for Exit were found among older voters, particularly pensioners, the unemployed, home owners, non-university educated, white, Christian and Conservative and UKIP supporters.

It is all too easy to read this pattern of voting as demonstrating that the less educated and less skilled, and the older generation, more accustomed to an imperial rather than European Britain, had voted against tolerance and cosmopolitanism. And there is no dearth of commentary on how those who voted to leave were those whom 'globalization' left behind. However, the first reading is condescending and the second assumes, wrongly, that globalization was something that made state economic policy powerless (Hay 2014) whereas it was in fact the ideology of the Clinton administration's economic strategy and its worldwide drive against capital controls (Desai 2013). What this pattern really reveals is that those who voted for Brexit were not provincial and racist

² *Four week moving average of all pollsters*, Source: <http://ukpollingreport.co.uk/voting-intention-2>.

bigots who lost from ‘globalization’ but those who had lost from Britain’s highly financialized pattern of growth. They are geographically, socially and culturally so deeply divided from those the ‘Remainers’ – largely those who had benefitted from that pattern of growth – that there is little more than mutual incomprehension between them and that the former are considerably more numerous.

The protest vote of the ‘losers’ was no flash in the pan. A YouGov poll at the end of September indicated that the majority for Leave remained solid more than three months after the referendum (YouGov 2016). Nor, it would appear, has it been in vain. It was a sweeping rejection

of the neoliberal status quo comparable to support for Sanders in the USA, Podemos in Spain, Cinque Stelle in Italy and in its own way, Syriza in Greece. A similar eruption had elected Jeremy Corbyn as Labour leader. In Scotland, the only country given an anti-austerity option in the 2015 election, it was responsible for the Scottish Nationalists’ sweep of practically all Scottish seats (Desai and Freeman 2015). Mrs May’s ear was definitely close to the ground of the referendum’s verdict when she delivered to the 2016 Tory conference the most left-wing rhetoric the party has ever heard, speaking of the need for a government ‘capable of delivering a programme of serious social reform’.

The evidence of this need has been known to us for a long time. If you’re born poor, you will die on average nine years earlier than others. If you’re black, you’re treated more harshly by the criminal justice system than if you’re white. If you’re a white, working-class boy, you’re less likely than anybody else to go to university. If you’re at a state school, you’re less likely to reach the top professions than if you’re educated privately. If you’re a woman, you still earn less than a man. If you suffer from mental health problems, there’s too often not enough help to hand. If you’re young, you’ll find it harder than ever before to own your own home. These are all burning injustices, and – as I did with the misuse of stop and search and deaths in police custody and modern slavery – I am determined to fight against them (May 2016).

The self-evident conflict between these promises and the accompanying – and alarming – deepening of the Party’s racist stance on immigration reflected in another speech by Mrs May just four days later only serves to illustrate that the leopard does not easily change its spots.

The ‘losers’ cause is only now beginning to receive the attention that the rudely-shocked intelligentsia should have been giving it for decades. As Simon Tilford points out in his recent report for the Centre for European Reform (2016), while British unemployment remains lower than in other major EU economies chiefly, one might add, thanks to a service sector that provides chiefly low-paid, low-skill and insecure jobs, and while British real economic growth since 2000 appears better than other EU economies when measured in sterling, once properly adjusted for price differences both absolute and per capita growth has been lower than nearly all other major EU economies (Germany,

France, Italy and Spain) and outperforms only Italy. Britons are poorer relative to the EU 15 than they were in 2000. Their productivity performance is near the bottom of the league table of major EU economies. They work longer hours than their counterparts in these economies except Spain. Their wages lag those in France and Germany. Britons are also less educated and skilled and British governments have failed to invest in infrastructure.

Two other things stand out in Tilford’s report. First, London, home of Britain’s financial sector, practically the only economic sector to flourish in recent decades, is also the country’s richest city by far. Secondly, barring Spain, Britain has experienced the largest increase in its working age population among major EU economies. Essentially, the British economy is working for very few people outside the financial sector; it is now time for a closer look at it, and its stakes in the referendum.

The City's Brexit Fears

Ironically for the home of the Industrial Revolution, Britain's manufacturing capitalists were never the dominant fraction of the capitalist class. Thanks to the earlier 16th Century capitalist revolution in agriculture, that privilege was reserved for an originally agrarian capitalist class which later diversified into and came to dominate finance, commerce, and landed property, cultivating a 'gentlemanly' disdain for industry. The vast British Empire converted the City of London – the Square Mile in which London's financial business used to be concentrated until the 1970s – into the financial and commercial centre of the 19th Century world, aided by sterling's role as the world's currency (Anderson 1964, Ingham 1984). This dominance facilitated the world-wide market for British manufactures in the high noon of British industrial supremacy in the mid-19th Century.

However, as this supremacy was challenged and steadily encroached upon by new competitors such as Germany and the USA in the late 19th century, the City's dominance within the British capitalist class also frustrated and doomed all efforts to address the relative decline of British industry that has continued more or less uninterrupted since (Gamble 1990; Leys 1990). See also Desai 2013, 32; Burke 2016). Such efforts, requiring as they would protection, a high degree of economic regulation, and a significant state role in support of domestic industrial production, cut athwart the City and its allied imperial interests.

The City suffered a crisis when sterling lost its world role after 1914 and it recovered only in the post-war period by re-defining its position in the world economy. However, the essential constraints the City represented for Britain's productive and industrial economy did not change. Low regulation and fiscal and monetary policies designed to keep the pound high served to entrench the City's dominance and perpetuated the decline of industry that lies at the core of the economic problems described above. The City's dominance has also ensured the expansion of the British financial sector to include the towers of Canary Wharf, home to large UK and foreign banks and

the high-powered Mergers and Acquisitions and asset management business in Mayfair and points west (Agnew and Jenkins 2016), making 'The City' strictly speaking a misnomer, though we continue to use it here as a convenient shorthand.

It should therefore cause little wonder that Britain's relations with the EU have hitherto been governed by the perceptions and interests of the City, not those of the British economy, leave alone the interests of its working people.

If Britain was always the most reluctant of EU members and its infamous 'awkward partner' (George 1998), this status is in large part due to the need to adapt Britain's relation to the EU to the interests of the City. Churchill, who had spoken of a 'United States of Europe', had kept Britain out of the EEC when the Treaty of Rome was signed in 1957. This in turn was conditioned by the way the USA, with its doomed ambition to replace Britain as the world's pre-eminent imperial power (Desai 2013), restructured Britain's relationship to it after the war through the 'special relationship', a military alliance that traded vassal status for privileged – but subordinated – access to resources, notably oil and minerals and offered military bases which the USA aspired to control (Freeman 2014). Britain's, and the City's, world role was defined by the still vast, if shrinking, system of 'Imperial Preferences', euphemistically designated the British Commonwealth, and its special relationship with the USA.

In the 1950s and 1960s, this special relationship revived the City (Ingham 1984) after its existential crisis during the Thirty Years' Crisis (1914-45). Though sterling's world role continued to decline, the City flourished through a combination of old business lines – bullion and currency markets, secondary markets in stocks issued in other jurisdictions and insurance – and some new ones, above all, the Eurodollar market (Strange 1971) in good part by using its political power to bend both legislation and economic policy in its favour. In the process, the City also subjected the British economy to the infamous 'go-stop' cycles which repeatedly interrupted growth prematurely and lengthened stagnation.

Though Macmillan applied for membership in the 1960s, which De Gaulle vetoed primarily because France was still denied access to British and US-controlled military nuclear technology (Freeman 2014), it did not matter so much: ‘the wish of some important elements of British capitalism to get into the Common Market had only a moderate weight. It was enough to incline governments definitely towards Europe, but never enough to make them give the project the absolute priority and risk the sharp break with tradition which it required.’ (Nairn 1972, 21). What changed by the early 1970s was the closing of the gold window and the pervasive uncertainties about the international monetary order and the role of the dollar in it that followed.³ These new circumstances required ‘a rapid acceleration of the hitherto dignified and portly ‘imperial’ approach to the matter. The gentlemanly perambulation turned into a run’ (Nairn 1972, 24).

Prime Minister Heath brought Britain into the EU in 1973, a decision confirmed through a referendum called by Prime Minister Wilson in 1975. However, it was the Thatcher government, which came to power in 1979, that cemented the City’s relations with the EU. Practically her first act in power was to lift capital controls. Combined with the general deregulatory thrust of her government, which benefitted finance disproportionately, this gave the City a lead over other European financial centres in the vast, largely dollar-denominated, financializations to come.

In the 1980s, however, European integration was languishing and the City’s prosperity relied on the ‘monetarist’ high interest rate policies of the first half of the 1980s. They

³ *Contrary to those who have retrospectively taken to seeing it as some sort of ‘master-stroke’ to maintain the dollar’s world role without the burdens of the gold link, the closing of the gold window was forced on the Nixon administration amidst multiple crises and led, immediately, to the dollar diving so low as to require the US government to borrow in order to intervene in markets. The dollar’s world role since then has relied on a series of volatile dollar-denominated international financializations, each of which failed and had to be replaced by another, to which the City’s contributions has been invaluable. See Desai 2013 for further details of this argument.*

directly benefitted holders of government debt and indirectly permitted the City to enjoy stable exchange rates without having to join the European Exchange Rate Mechanism (ERM). By the time these policies reached the limits of their ability to contain inflation in the late 1980s, Mrs Thatcher treated the City to the ‘Big Bang’ reforms of 1986. They removed a swath of traditional restrictions on trading in stocks and securities – fixed commissions, the distinction between brokers and ‘jobbers’ who traded on their own account and the restriction of foreign firms in the London Stock Exchange. These practices could persist as long as the City’s business was traditional banking. That, however, had suffered a series of shocks over the 1970s and 1980s, including high inflation and the Third World debt crisis, and would now be displaced by the increasing securitization of lending. The accompanying rise in international portfolio investments in foreign stocks also made its first major mark in the 1987 US stock market crash. Lawson’s doomed attempt to bring the pound into the ERM crashed and burned, casting sharp light on the underlying disparities between Britain’s economy and those of its European partner-rivals, and fortuitously leaving Britain in the unique position of operating a minor reserve currency from within the Common Market.

With the ‘Big Bang’ reforms, the City was ideally positioned to establish a new relation with New York. The world’s two premier financial centres now surfed the international capital flows that increased in size and speed in the Anglo-American dominated world financial system. These flows caused the stock market crashes, banking and currency crises that would be witnessed in the decades to follow (Costello, Michie and Milne 1989, Bordo and Eichengreen 2002).

The process of European monetary integration – which began in the early 1970s in reaction to the volatility that followed the closing of the gold window and the US refusal to cooperate in the creation of a multilateral international monetary order – was essentially an effort to shield Europe from these instabilities

by creating a non-dollar financial world of its own. In the three decades that followed, Britain remained outside the ERM and later the Eurozone, leaving the City free to position itself strategically, and become the critical link, between two very different financial worlds. On the one hand was the already highly deregulated Anglo-American financial world in which dollar-denominated capital flows dominated. On the other was that of Europe engaged in achieving ever higher levels of financial integration culminating in the adoption of the euro. The Eurozone's highly regulated structures, and its still national banking systems, increased the importance of the 'passporting' rights the City enjoyed, thanks to its membership of the EU's single market. The City also became 'a bridgehead to non-EU financial institutions wanting to serve the wider European market ... [and] ... continental European banks ... concentrate[ing] most of their wholesale activities in London. (Wholesale finance consists of lending, borrowing and trading between financial institutions, rather than between banks and their customers.)' (Springford and Whyte 2014).

Thus, it was the interests of the City that dictated the timing of British accession and the peculiar nature of the British relationship with the EU, with its leaders constantly railing against EU centralism, unaccountability and alleged socialist tendencies, electing to stay out of the Eurozone and negotiating the most opt outs, including famously, from the 'social chapter' of the Maastricht Treaty, of any EU member from its major treaties and agreements. Britain also demanded and received a rebate on its contributions to the EU kitty which 'still exists and has been worth nearly €90 billion and established itself as one of the 'red lines' present in every EU budget negotiation' (Fox 2013).

Developments since the 2008 financial crisis and the Eurozone crisis that began in 2010 have, however, rudely interrupted practically all of these flourishing financial activities. First, both tighter regulation and changes in private sector behaviour have not only led to a massive decline

in international financial flows but also ensured that their recovery remained over 60% short of their pre-crisis peak (McKinsey 2013). Second, it is clear that Britain's business with both the US and the EU has declined. Thirdly, and moreover, the City's articulating role between the two, one of the most lucrative over the previous decade, has been cast into doubt because it was through this link that the Eurozone became exposed to the US housing and credit bubbles, making it the part of the world outside the US to suffer most from the 2008 crisis when they burst.

Over the 2000s, financial links between these two worlds, particularly between Germany and the Anglo-American world, had increased massively as capital flows from an increasingly (and late) financializing EU economy, led by German and French financial institutions poured into the US credit bubble of the 2000s. Until German unification, France had managed to keep Germany within the distinctly more productivist, statist and welfarist continental model (van der Pijl, et al, 2011). Thereafter, however, Germany's increased weight within the EU made this difficult. Over the next decade, Germany turned away from the productivist corporatism that had kept its manufacturing sector so robust for so long. German unification had provided, in the absorption of East Germany, a 'model' for the subordinated absorption of former communist countries which began in the late 1990s while the simultaneous launching of the euro and accompanying financial integration placed its older southern periphery in a similarly subordinated position.

Now, German capital no longer needed the high degree of regulation and political compromise with labour that had hitherto characterised its very productive economy; eastward expansion and financial integration trumped French advocacy of a social-democratic and *dirigiste* deepening within the EU. As these processes gave a great fillip to neoliberalism and financialization, two distinct avenues opened for European financial investment. The better known of the two is the (as we now know, only apparently) safe avenue of purely

financial profit-making for German and French capital by lending to the periphery, which also accommodated persistent German export surpluses without any corresponding obligations such as fiscal transfers. The second is less well known: via the City, the bridge between the EU and the US, this newly financialised European capital – and not, as often claimed, some putatively over-saving Asian capital (Borio and Disyatat 2011, Nesvetailova and Palan 2008) became heavily invested in the ‘toxic’ securities generated by the US housing and credit bubbles of the early 2000s; consequently, they suffered most from it (Serfati 2015, Montalbano 2016).

The City’s business with both the EU and the US has declined. There is little doubt that the City is divided and likely a little rudderless. In the window of time between the 2008 financial crisis and the 2010 Eurozone crisis there was much talk about British entry into the Eurozone and much self-congratulation about the wisdom of staying out after the Eurozone crisis erupted. Today, City opinion is divided over whether Europe or the rest of the world – particularly the emerging markets and especially China and the other BRICs – offer the best prospects, because it is simply too difficult to call. Meanwhile the City is buying all the insurance policies it can: the announcement of British membership of China’s Asian Infrastructure Investment Bank (AIIB) against loud

protestations of the Obama administration was one such, casting a new light on the perceived attractiveness of the traditional Anglo-American financial linkages and the new ones to the east.

In these diminished circumstances, during and even after the referendum campaign, the City was certainly more or less completely united in favour of staying. Not doing so would lose it what remained of the European business it enjoyed thanks to ‘passporting rights’ into the rest of the EU. There was, moreover, the threat that the numerous foreign firms that had elected to come to Britain to enjoy its access to the EU would leave for other financial centres within the Eurozone, a possibility rival European financial centres were already lining up to exploit. Finally, emerging markets, many of whose firms used the City as a gateway to the rest of the EU, could no longer be expected to open new businesses there. However, for the first time in practically centuries, it faced a threat which had so far been successfully managed: that of democracy. And it did so at a time when the very changes that had made it boom – the arrival of foreign firms, the displacement of the old gentlemanly investment banks with large corporate firms, its multicultural character – all conspired against its ability to act as a unified agent. We are now in a position to understand events since the referendum.

What have they done?! The Known Unknowns and the Unknown Unknowns

It should now provoke little wonder that no sooner was the decisive referendum verdict in than voices emerged to seek to reverse it. The problem is, having coaxed the democratic genie out of the lamp by calling a referendum, it could be politically suicidal to try to put it back in, or at least to be seen as trying to do so. That

is not the least reason for Mrs May’s insistence that ‘Brexit means Brexit’. It is not, as some have averred, merely a circular statement which means nothing. It is a strong signal that she does not favour, or rather, will not be seen to favour, ongoing attempts to reverse or dilute the referendum’s verdict. That is also the spirit in which she has announced that

she will trigger Article 50 before March 2017. That is why she has placed four leading Brexiteers in her cabinet – Boris Johnson, the foreign secretary, Liam Fox the minister for international trade, David Davis, in the newly created position of secretary of state for exiting the European Union and Priti Patel, secretary of state for international development – in positions critical to negotiating Brexit.

That is also why Philip Hammond, Chancellor of the Exchequer (a quaint British term for finance minister), traditionally the representative of the City in government, is not among them: the City and Philip Hammond's pro-EU views are too well known. Instead he has been charged with coming up with ideas about increasing public investment, building social housing and postponing balancing the budget – all proposals likely to improve Britain's productive economy but unlikely to appeal to the City – to help tide the British economy over the shock of Brexit and, presumably, re-engineer it for its unexpected new future.

As will presently become clear, Mrs May's words and actions are not signs that she favours Brexit. She did, after all, campaign to Remain. Nor are they bluffs from someone who does not think she will have to go through with them. Rather they are calculated to position her advantageously no matter what the outcome of the genuinely unpredictable struggles to come. If exit is forced upon Britain simply as the only way to save the Conservative Party (or, less probably, thanks to missteps or miscalculations on the part of her EU counterparties in the complex negotiations to come), she will appear as the leader who followed the democratic verdict despite how hard it was. If she manages to keep Britain in the EU by making compromises, she can say she tried her best to honour the democratic verdict but was overwhelmed by circumstances. There are simply too many unknowns – known and unknown – that will affect the outcome.

Not least among these are the series of political crises which the referendum result has catalysed. David Cameron's resignation kicked off a Conservative Party leadership contest whose more likely contenders – Boris Johnson, Michael Gove – fell to the bloodletting that ensued between Tory Remain

and Leave camps replete with betrayals within both. The Labour party's establishmentarian Parliamentary Party accused its leader, Jeremy Corbyn, long known for his Eurosceptical views, of having campaigned with insufficient enthusiasm for the Remain side and sought to trigger a leadership contest, an effort which, it was fairly plain to see, was prompted more by the parliamentary party's long-standing and still-unflagging antipathy to Corbyn.

If these existential struggles in the two major parties were not enough, the fate of the United Kingdom also hung in the balance. Scotland and Northern Ireland had bucked the national trend and Scotland's Scottish Nationalist First Minister, Nicola Sturgeon, declared that Scotland would explore options for remaining in the EU if Brexit was carried out, including separation from the United Kingdom. For its part, Sinn Fein declared, in a moment of both irony and truth, that the re-unification of Ireland was now on the cards, and would give the North of Ireland the option of exercising its nominal sovereignty by remaining in Europe instead of Britain.

The referendum verdict may have been definite, momentous and historic. It may have been the first time any country had voted to leave one of the more successful experiments in regional integration, the problems of the Eurozone, of which Britain was not a member, notwithstanding. It may have seemed – disastrously or felicitously, depending on your point of view – to promise a drastic and more or less immediate change to a pattern of social, political and economic life that had, over the previous four decades, become increasingly close to the continent which, until then, Britain with her imperial preoccupations, had avoided. It may have caused stock markets to take their deepest plunge ever, sent the pound sterling down to a 31-year low, given the Governor of the Bank of England his worst day ever, prompted the Prime Minister to resign and caused leadership changes and crises in Britain's major parties. It may even have put the future of the United Kingdom itself into jeopardy.

However, going as it did against the wishes of virtually the entire political establishment, proposals to undo the unwelcome verdict began emerged almost as soon as it was delivered.

Protesters, most of them young and middle class, marched in London demanding a second referendum. A petition making the same demand garnered 2.5 million signatures and crashed the House of Commons website within three days of the result (Tapper 2016). Others who sought to reverse the verdict pointed out that the referendum was not binding but only consultative, and the government could and should ignore it. Eminent international jurists produced persuasive cases against the legality of the referendum (Allott 2016). A thousand barristers signed a letter to the Prime Minister urging that Parliament consider the question of EU membership after an extensive commission of inquiry because, *inter alia*, *per* the British constitution (in all its unwritten glory), it is parliament, not the people, who are sovereign (Bowcott 2016). Such a vote would surely reverse the verdict of the referendum given that, thanks to professionalization of politics in recent decades, most MPs belong to the professional middle classes, not the classes their parties are socially based in. Knowing this, Mrs May, in so far as she wishes to appear as the champion of Britons' democratic verdict, would be unwise to risk it. It is far wiser to take the flak from an enraged parliament as she did at the October party conference. Given that the split on the EU largely runs through the Conservative Party, moreover, Mrs May would be risking the very thing she is manoeuvring to protect and strengthen by subjecting the country to a tortuous process whose outcome could be a wrenching break with the EU.

In a culture which, in recent decades, had cultivated an astonishing cynicism about democracy (Mair 2006), some even complained about the referendum having been 'bought by billionaires' (Monbiot 2016), though the slightly better funding of the 'leave' side was explained entirely by the largest single donation of the campaign, the £3.2m that the city maverick, Peter Hargreaves of Hargreaves Lansdown, one of the largest financial firms in the City, gave to the leave campaign (Electoral Commission 2016). The real question is why the collective

might of rest of the City, which had united behind the Remain campaign, could not out-do this. Was it a mark of a new ambivalence in the City? A sign of its reduced financial might or political will? The latter was not out of the question given the transformation of the old City of London with its old boys' networks and family firms into a new international headquarters of anonymous financial corporations whose denizens had little personal stake in them and viewed them as 'platforms on which to build their career' and in which banker and brokers had lost influence to policy-makers (Agnew and Jenkins 2016).

Anti-Brexit impulses are not confined to Britain. When Mrs May ignored calls from her own MPs to further delay the invocation of Article 50 until after elections in Europe's two main countries, Germany and France, a former Eurocrat pointed out that all would not be lost even if it was invoked early in 2017. Britain could simply change its mind even after the clock started ticking on the two-year window since that article involves only the indication of an 'intention' to leave not a 'final and irreversible decision' and 'Legally, you may withdraw an intention, or change it, or transform it into a decision' (Piris 2016).

These are the powerful forces already at play in resisting the referendum verdict. The spirit of Mrs May's Conservative party, made up of its City and business backers, may be willing to go along with this but its flesh, composed of its fragile electoral base, is definitely weak. Unless it was clear throughout the complex negotiations to come that the party leadership was doing all it could to implement the verdict, the Conservative Party could find itself permanently bereft of the capacity to win power. And without that capacity, the spirit might as well leave its mortal coil and ascend to the heaven beyond Britain's politics. The danger lies precisely in the possibility that, in seeking to show that they are implementing the verdict, they may end up doing so. The reason why the Conservatives find themselves at this pass, and why they have so recklessly dragged the rest of the country along, is more than four decades of neoliberalism.

British Society's Neoliberal Faultlines

Neoliberalism has divided British society as deeply as, if not more deeply than, when Disraeli wrote his *Sybil or the Two Nations* and a broad swath of the intellectual classes came over to the side of reforming capitalism (Desai 1994). The inequalities – of income, wealth, cultural competence, skills, health and longevity inter alia – that disfigure British society may not have been the creation of neoliberalism alone but it has vastly exacerbated them. Mrs Thatcher took office with her free market, ‘monetarist’ and anti-trade union ideology claiming that they were key to reviving the British economy, solving its long-standing productivity and competitiveness problems that had, over the previous decade and a half, become matters of increasing concern.

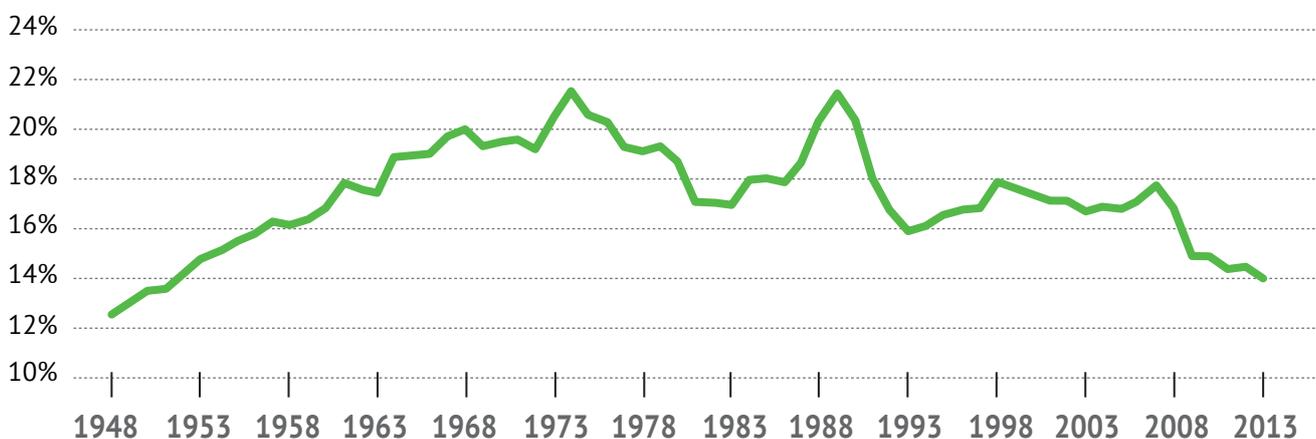
However, rather than reviving the productive and industrial economy, Mrs Thatcher imposed the greatest contraction of the manufacturing sector ever seen in an industrial economy – 25% – and after an initial surge, presided over a continuing secular decline in investment (Figure 3) that has fatally undermined both Britain’s productive capacity and its competitiveness.

British industrial decline, and its effects, were further exacerbated as her frontal attacks on the unions weakening their bargaining position and contributing to income inequality and persistently high levels of unemployment or

low-skill, low-productivity employment in many parts of the UK. The only sector her deregulatory policies encouraged was, as we have seen, finance – whose favoured policies compounded the misfortunes of British industry. The record of Thatcherism in both its original form, and its Blairite and Cameronite continuations, is an unmitigated economic and social catastrophe; the Brexit vote is but a down payment on the political returns due to it.

Thus Britain’s Gini coefficient, the measure of its inequality, has risen from about 0.26 in 1979 to over 0.4 today. It has divided Britain geographically into a prosperous London and South East, an especially depressed North with its deindustrialized run-down cities, and a mildly more social democratic Scotland able to avoid some of the worst of the social breakdown visited on the north of England, with the rest of the country performing indifferently. No wonder then that among those who voted in the referendum, those with lower incomes and lower education and skills, along with pensioners, among the greatest losers from neoliberal reform of the welfare state, voted to leave. The greatest support for Remain came from the professional middle classes and the ‘chatterati’ who are among those who gained sufficiently during the neoliberal decades to enjoy all that the EU and neoliberal and financialised Britain had to offer: high incomes,

Figure 3. UK INVESTMENT AS A SHARE OF GROSS DOMESTIC PRODUCT



Source: ONS National Income Accounts series NPQS (Gross Fixed Investment), BKTL (GDP), author calculations

including from financial investments, expensive houses, high quality consumer goods to fill them with, access to high culture and expansive education, fine foods and wine and opportunities to travel, work and study in the EU for themselves and their children. In recent decades, these classes have formed the leadership of both parties, moving both to the right, under Thatcher and Blair respectively, committing them to some version

of neoliberalism, in Labour's case in the guise of globalization, openness and cosmopolitanism.

These divides underlie the broken political system, one of whose parts, the Conservative Party, has brought Britain to the Brexit pass – through which Britain could lose its unity, international role and influence and, depending on how things unfold, its social stability – and whose fortunes promise to influence its outcome strongly.

A Broken Political System

Because of the fault lines that now divide British society after nearly four decades of neoliberalism, the main political parties have become unmoored from their respective mass bases, dominated by their professional middle class parliamentary wings and highly centralised in the leaders' offices. Tory MPs failed to express the concerns of smaller business and the skilled working classes that moved to them in during the Thatcher years, while Labour proved unable to articulate the working class suffering, particularly outside London. The only articulations which these discontents were offered were that represented by Nigel Farage's UKIP which was largely taken up by Conservative voters, and by Corbyn's 'remain and reform' message without which the 'leave' vote could have been even greater. The irony of the Parliamentary party's accusation against Corbyn that he did not campaign enthusiastically enough, is that had his party united behind his anti-austerity message, the Remain side may very well have won.

Notwithstanding the steep rise in racist rhetoric, violence and abuse, those who voted to leave are not all racists. When Labour has campaigned under clear anti-austerity leadership, whilst making no concessions to the anti-immigration lobby as in the Sheffield Brightside bye-election of May 2016, UKIP's vote share actually fell, and Labour's rose.

The Brexit voters, however, are overwhelmingly those who have lost out in the neoliberal decades. In the Remain campaign, particularly the overwhelming bulk of the parliamentary labour party, a laudable if skin-deep cosmopolitanism and a flag-of-convenience anti-racism were irredeemably entangled in a root-and-branch blindness to the real issues facing the campaigners' natural working class constituency, and how little this constituency benefitted from the EU.

While it was the Conservatives' political crisis that underlies the movement towards Brexit, the issue has opened an equally fundamental divide in Labour. West European Socialist or social-democratic parties have typically been alliances between the manual working class and the professional and intellectual element, of what the Fabians, with their eccentric directness, called 'brains and numbers', though in reality the working classes were never without brains and the professional and intellectual classes were never as few.

This alliance was never easy: it was a major element in practically every major crisis of the labour party – from the divides over nuclear disarmament in the 1950s to those over the rise of the Bennite left in the 1970s which resulted in a major current of Labour's intellectual elements leaving the Labour party

in 1981 to form the Social Democratic party (Desai 1994). Neoliberalism has, however, transformed the alliance into a deep, social, cultural as well as political divide within the party. The party's 'New Labour' professional elements, the backbone of Blairism, dominate the parliamentary caucus while Jeremy Corbyn was elected leader with massive support from Labour's union and working class base. Never comfortable with this outcome of the 2015 leadership contest, the former sought to use the Brexit verdict to unseat Corbyn in an unseemly process that former

Scottish National Party leader, Alex Salmond, called a 'disgusting coup' against Corbyn. It failed and Corbyn was re-elected leader with an even greater majority in September; however, all the signs are that Labour MPs are not about to give up seeking new avenues against a leader they hate even more than the Tories. To the extent that they succeed, Corbyn, the one public leader capable of expressing the interests of the marginalised majority in a manner that leads towards a more productive, egalitarian and culturally inclusive Britain, will be hobbled from expressing this alternative.

Conclusion

Naturally, the outcome of the negotiations over Brexit – whether the ultimate outcome is that Britain leaves the EU or that it re-negotiates the terms of its membership – will also be determined by the imperatives and actions of the EU's key leaders. And they too face numerous uncertainties: Both German Chancellor Angela Merkel and French President Francois Holland face elections in late 2017 and a goodly part of the positions they take will be determined by the need to shore up their flagging popularity. Thanks to their own need for labour, and therefore to keep the eastern periphery in, they are unlikely to compromise on the one point which could most easily lead to a compromise with the UK: free movement.

At the same time, they are only too aware that compromising with the British to keep them in could set a dangerous example. This prompts them to threaten heavy penalties on Britain for pursuing exit to make British capitulation the price of remaining merely to prevent other countries from following suit. It remains to be seen whether they can impose these penalties and whether they will have the desired deterrent effect.

It remains impossible to predict whether Article 50 will be triggered in March 2017 and if it is, whether it will actually lead to Brexit by 2019 as the Article requires. Nor is it possible to predict whether the UK will remain united in the process. It has been the burden of this article to show that so far, the process has driven by the needs of a party in crisis. These needs are likely to continue to dominate the process for two key reasons. First, Britain's financial sector, whose needs and perceptions have so far governed Britain's relations with the EU may well be too weakened, corporatized and uncertain about where its future lies to provide strong enough motivation in favour of remaining. Secondly, the rest of the political system is too broken to afford an alternative and will remain so unless, somehow, Corbyn can overcome the deep-seated hostility of an entrenched closet neoliberal establishment, extending deep into his own party apparatus, in favour of the crying needs of that party's working class supporters.

Authors' Note: This essay was completed on 6 October 2016.

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