Brexit and its consequences

Prof Robert Anthony's point of view

On 22 April, during U.S. President Barack Obama's visit to London, he invited the British to reconsider their position on a possible Brexit and to vote to stay in the European Union. His argument was supported by the conclusions of HM Treasury which recently drafted a 200-page report on the disastrous consequences Brexit would have, with GDP falling by 6% by 2030. The Chancellor of the Exchequer, George Osborne, goes even further, stating that leaving the EU "would be the most extraordinary self-inflicted wound".

As Principal Partner of a Multi Family Office (MFO), many people are asking me what my views on a Brexit are. It is clear that after long-standing EU membership, the UK is deeply integrated into the Union. Their domestic legislation is influenced and has been amended in several areas to respect European law. These include employment law, tax and VAT law and a wealth of other legislation. Whilst there are treaties between European countries, European law overrules domestic law and illegal clauses in these treaties. What could happen in the future is that the UK would no longer need to respect European legislation. This would create a massive handicap for the public, as they would no longer have an arbitrator to protect them from overzealous politicians and bureaucrats. Private and public-sector investment abroad would be prejudiced.

The currency, despite not being the euro, would come under pressure from speculation and concerns as to a partial potential collapse of, or exodus from, the city. It has been estimated that sterling will depreciate by around 20% although I personally believe it would be more in the region of 30%. The City of London and Greater London as a whole are at serious risk. One-fifth of London's population is foreign and there are several hundreds of thousands of French nationals living in the city. Yet some luxury properties are already struggling to find buyers. This will affect the availability of manual labour, often immigrants. Some of the middle classes will be relocated leaving a vacuum thereby reducing general demand of goods and services. Restaurants which have thrived over the years will be short of clients and face financial difficulties if an exodus occurs. Foreign nationals have already had their non-domicile status undermined by tax legislation. The effect of yet another change could take years to recover from. London would stagnate as a result of companies and people leaving the city to relocate abroad. Manufacturing would falter due to a slowdown in demand and the UK risks stagnating or even dipping into recession. The idea that a weaker sterling would boost exports is somewhat outdated. Do not forget that raw materials are often imported as part of the manufacturing process. Many imports would come from a European country at a higher cost! It is also important to not overlook the significance of imports from China, as well as the rest of Asia!

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Imported goods would cost more. North Sea oil is not a source of revenue forever, and this revenue is not what it once was. Even with increased oil prices this will not help with imports of other commodities or types of fuel. Increasing unemployment could lead to more physical violence in the streets, thereby encouraging emigration to calmer places and thus accelerating the internal problems.

Finally the French and British armies cooperate closely. What happens to domestic security? What happens to border controls and free circulation within the EU? What happens to employment rights? People may migrate to/from the UK because of their employment status as well as uncertainty for their future. How do governments envisage dealing with this?

In the circumstances, this is not the best time to be selling French property. Prices have been depressed and sterling has been strong. However, for French people repatriating to France, property prices are likely to strengthen and rise in view of the current trends. If sterling loses value, British people will obtain more for their property. It could be argued that the best option is to sell up and repatriate the funds in the UK out of GBP. You could even argue that now is the best time to buy French property. Whilst it is clear that the French property market is recovering, the rest really depends on the UK referendum. I do not have a crystal ball and would not wish to take the responsibility for any decisions made. However, I would recommend seeking independent advice, being careful of any currency risk exposures and buying options to hedge any volatility and exposure.

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