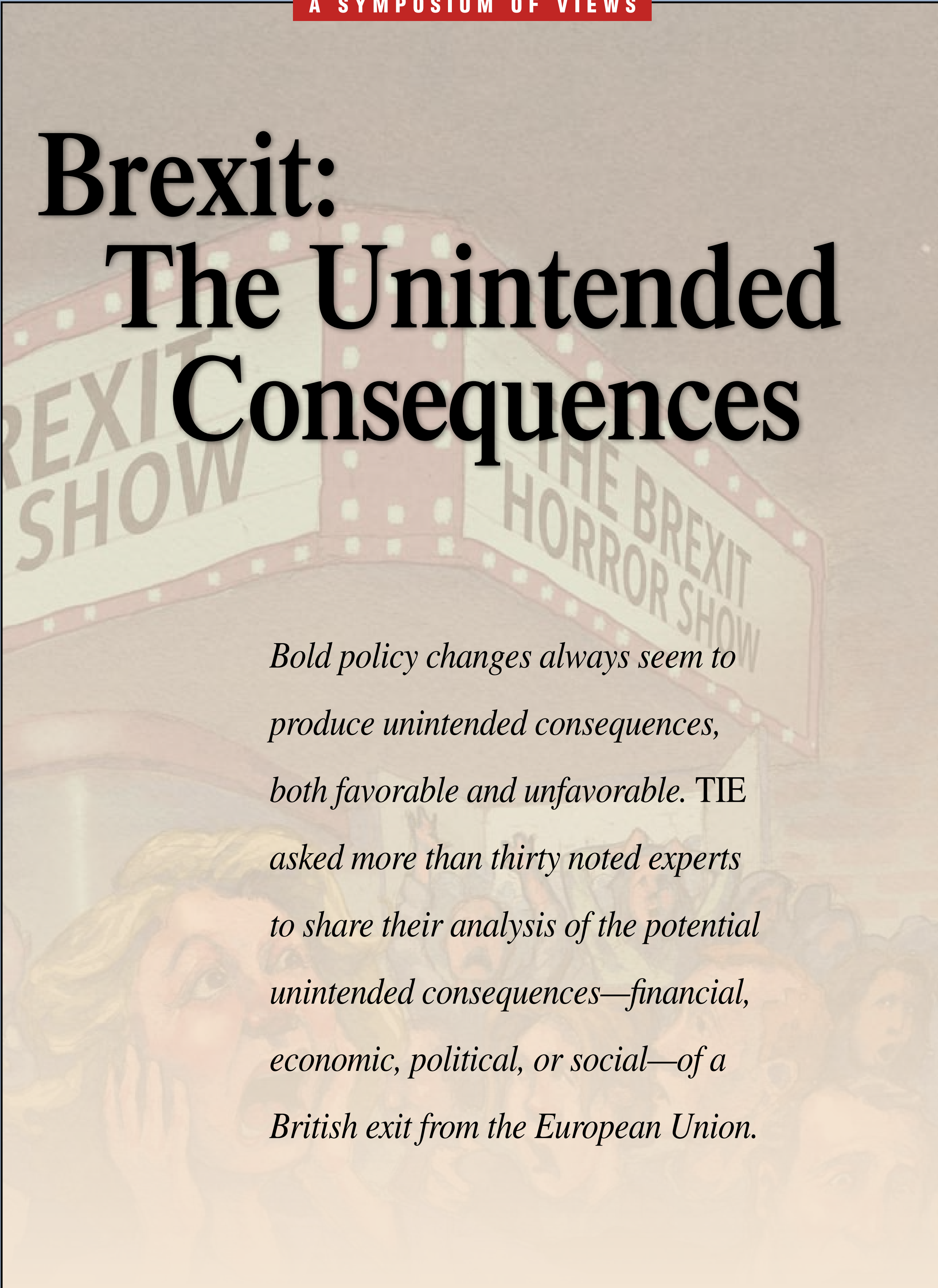
A SYMPOSIUM OF VIEWS

Brexit: The Unintended Consequences



Bold policy changes always seem to produce unintended consequences, both favorable and unfavorable. TIE *asked more than thirty noted experts to share their analysis of the potential unintended consequences—financial, economic, political, or social—of a British exit from the European Union.*

Britain has been an essential part of an opinion group defending more market-based and liberal approaches.

MIROSLAV SINGER
Governor, Czech National Bank

There is an ongoing debate about the economic merits and demerits of Brexit in the United Kingdom. However, from my point of view as a central banker from a mid-sized and very open Central European economy, the strictly economic arguments are in some sense overwhelmed by my own, often very personal experience with the "British approach" to the European discussions about the development of the regulatory and supervisory framework for the EU financial market, especially after the period of intense financial turmoil.

But first, let me state clearly that the United Kingdom is an important trading partner for the Czech economy. It accounts for 5.3 percent of Czech exports and 2.1 percent of Czech imports, which puts it in fourth and thirteenth place, respectively, in our foreign trade partner ranking. It is also a source of foreign direct investment, being the eleventh largest investor in my country. Some of its brands—Vodafone, Tesco, and Diageo—are more than familiar to the Czech public. BBC products are a staple on our TV channels. The Czech Air Force seems more than happy with its UK/Swedish Gripen fighters. All this may change with Brexit, especially since it is far from assured that it would be handled smoothly.

For us at the Czech National Bank, the most important issue has been the role played by UK representatives in the discussions about the new European financial market framework. We found ourselves on a close platform, sharing and supporting similar positions on numerous issues, be it the creation and powers of European financial industry agencies (the European Banking Authority, the European Insurance and Occupational Pensions Authority, and European Securities and Markets Authority), the establishment of the Single Supervisory Mechanism and its relationship with supervisors in non-euro-area countries, Basel III and Solvency II issues, and resolution issues and pan-European resolution funds, to name just a few of the most significant ones. On a more general level, we often find ourselves together with the United Kingdom in an opinion group defending more market-based and liberal approaches to various elements of financial market frameworks.

Yet our opinions can differ. First, we have almost completely different experiences with our countries' financial industries during the Great Recession. The Czech financial sector served as a robust buffer, shielding us from some of the worst shocks. The British have had a rather different experience with their main banks, which to some extent drives their position on risks in retail banking. This difference is heightened by the difference in the relative weight of financial institutions in our economies, as expressed by the size of the financial sector in relation to GDP. The fact that this measure is three to four times larger in the United Kingdom than in the Czech Republic gives rise to different attitudes toward the risk of crisis in the financial industry and to possible crisis resolution. In a nutshell, in sharp contrast to the United Kingdom, the Czech Republic can—if worse comes to worst—afford to close one of its major banks, guarantee its liabilities, and take it into state hands to be recapitalized and later sold, without ruining its sovereign rating.

Another source of friction between the Czech and UK positions stems from the United Kingdom's weight in Europe. It is unthinkable for us to push on the European level an agenda that almost exclusively solves the problems or serves the interests of our own financial industry. The United Kingdom pushed Europe on, for example, the two Markets in Financial Instruments Directive regulatory frameworks, which were supposed to make stock markets and their platforms across Europe more effective, but which in reality placed a heavier regulatory workload on our institutions without really benefiting anyone. I am sure in retrospect that the time spent on MiFID could have been better spent on other issues, such as cross-border EU resolution procedures. The current discussion on the United Kingdom's approach to new ways of masking bonus schemes in banking is another example. This has again been an unhappy experience for us, and here I intentionally desist from mentioning particular cases where UK representatives have cut their own deals and the United Kingdom has abandoned its previously shared positions with us in Central Europe. To summarize, UK representatives often have British exclusiveness deep in their DNA, at the expense of cooperation with other countries.

Still, I am more than certain that the positives of the British presence in the European Union far outweigh our occasional cases of frustration with some of the United Kingdom's less beneficial attitudes toward Europe. This frustration stems from the fact that for my country, the most desirable principles of the European Union include respect for rules—even in cases where we disagreed with them during construction—and equal weights of countries. I have full trust in the wisdom of the British public. They will make their decision according to what they believe is in the best interests of their country. I must also say, however, that it would be a great pity for us to lose the United Kingdom from the European Union.

The European Union would do what it could to squeeze British financial services out of the Continent.

HANS-WERNER SINN
President, Ifo Institute for Economic Research, and Professor of Economics and Public Finance, University of Munich

The British liaison with the European Union has admittedly been difficult. Although they are Europeans, the British still say they travel to Europe when they cross the Channel. With some reluctance, the United Kingdom joined the European Economic Community in 1973, and the French were reluctant to accept it, after French President de Gaulle had vetoed British accession in 1963.

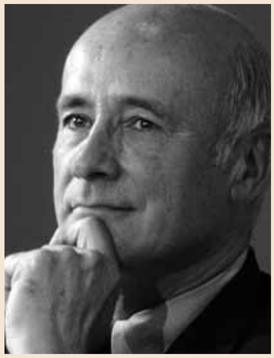
In the meantime, the United Kingdom's trade links with the Continent have increased significantly. The British economy has become a solid and firmly interwoven part of the EU economy, and the City of London has become a hub connecting the EU capital market with the rest of the world.

If Britain left the European Union, all this would be put at risk. In particular, the European Union would do what it could to squeeze British financial services out of the Continent to give EU banks a competitive advantage. Given that the financial sector contributes 7 percent to British GDP which is twice that sector's contribution to German GDP, this would probably be the biggest cost to Britain.

For Europe, a Brexit would have similarly problematic consequences as it would lose gains from trade. Even though European banks would be glad to get rid of their competitors, private households and business sectors importing from Britain would suffer significantly as prices of goods and services would go up.

From a political perspective, a Brexit would be problematic insofar as the European Union would be subject to French planification and lose sight of the basic principles of a market economy. British liberalism was one of the reasons why Germany had advocated Britain's accession in 1973. Losing the United Kingdom would risk building a Fortress Europe rather than a free trade area and drifting even further in the direction of a *dirigiste* economy.

And, what is more, how could a United Europe become a respectable power in world politics if Britain with its worldwide cultural network and its armed forces no longer participated? No, by all means, Britain must stay in the European Union for its own sake and for the sake of European peace and prosperity.



Brexit that weakens Europe and weakens Britain also weakens the United States.

JOSEPH S. NYE, JR.
University Distinguished Service Professor, Harvard University, former U.S. Assistant Secretary of Defense, and author,* Is the American Century Over? *(2015)

In the words of Douglas Alexander, a former Shadow Foreign Secretary, "since the end of World War II, America has been the system operator of international order built on a strong, stable Transatlantic Alliance supported by the twin pillars of NATO and the EU. If Britain leaves the EU, America's closest ally would be marginalized … and the whole European project at risk of unraveling at precisely the time new economic and security threats confront the West." It is no wonder that Vladimir Putin would welcome "Brexit."

The geopolitical consequences of Brexit might not appear immediately. The European Union might temporarily pull together, but there would be damage to the sense of mission and to Europe's soft power of attraction. Problems of financial stability and dealing with immigration would be harder to manage. Britain might see a revival of Scottish separatism, and an acceleration of its inward-turning trends of recent years. And over the longer run, the effects on the global balance of power and the liberal international order would be negative.

When it acts as an entity, Europe is the largest economy in the world, and its population of nearly 500 million is considerably larger than America's 325 million. American per capita income is higher than that of the

European Union, but in terms of human capital, technology, and exports, Europe is very much an economic peer.

In terms of military expenditure, Europe is second only to the United States with 15 percent of the world total, compared to 12 percent for China and 5 percent for Russia (though the number is somewhat misleading because Europe lacks military integration). France and Britain are the two major sources of European expeditionary power. In terms of economic power, Europe has the world's largest market, represents 17 percent of world trade, and dispenses half of the world's foreign assistance. In terms of soft power, Europe has twenty-seven universities ranked in the top one hundred, and its creative industries contribute about 7 percent to its GDP.

If Europe holds together, and remains allied with the United States, our resources reinforce each other. Direct investment in both directions is higher than with Asia and helps knit the economies together. In addition, U.S.-European trade is more balanced than U.S. trade with Asia. At the cultural level, Americans and Europeans share values of democracy and human rights more with each other than any other regions of the world.

Faced with a rising power in China, a declining but risk-acceptant power in Russia, and the prospect of prolonged turmoil in the Middle East, close cooperation between Europe and the United States will be crucial to maintaining a liberal international order over the long term. A Brexit that weakens Europe and weakens Britain also weakens the United States and makes a disorderly international system more likely.

The results depend on the details of a withdrawal agreement.

EWALD NOWOTNY
Governor, Austrian National Bank

The discussion about a possible exit of the United Kingdom from the European Union gained momentum after the agreement reached during the EU summit held February 18–19, 2016. In this short note I intend to assess the potential economic, financial, and political consequences. In doing so, one should be aware of the unique event we are looking at. There is no precedent for a country at the verge of leaving the European Union, let alone for a country of the size of the United Kingdom.

The debate is largely focused on the economic costs of "Brexit." After all, more than 50 percent of the United Kingdom's imports come from the European Union; around 45 percent of its exports go to the European Union. Indeed, most studies point to a significant negative impact on the United Kingdom's welfare following Brexit. Depending on different specifications, the loss of welfare could amount to 14 percent of GDP until 2030 (see Aichele & Felbermayr, 2015). The results depend on the details of a withdrawal agreement and the trade relations realized after withdrawal. Bearing in mind the uncertainty in these estimates, they can give us an idea of the potential economic consequences. In any case, the degree of uncertainty generated by Brexit may harm economic growth prospects, in particular through lower (private) investment. The consequences for the financial sector may be even more pronounced as the United Kingdom has specialized in international financial services. According to the Bank of England, more foreign banks operate in the United Kingdom than in any other country, and around half of the world's largest financial firms have their European headquarters there. Apart from the obvious negative consequences for London as the major financial center in Europe, the potential shift in foreign direct investment from the United Kingdom to other countries could also pose significant challenges to the new host countries. Furthermore, the United Kingdom is among the largest recipients of EU research funding. The consequences of foregoing these funds for innovation, creativity, and growth should not be underestimated. With regard to the euro area, our responsibility is to ensure that, whatever the outcome of the referendum in June, the euro area as a whole stands ready to deal with any situation that may arise. Thus, the efforts to enhance economic and monetary integration will proceed according to the needs of the euro area.

At least in the longer term, the economic impact of Brexit may even be outweighed by the potential repercussions of its social and political consequences, in particular for the further development of the European Union. Concerns have been raised with regard to Brexit serving as a blueprint for further disintegration in other countries where there is already a high degree of skepticism towards further integration. This may trigger a backlash against further integration at a time when it is needed most. The financial and economic crisis of 2007–2008 and, more recently, the so-called refugee crisis have put European solidarity to the test, leaving European citizens concerned about their future well-being. It is well beyond doubt, and has been confirmed many times over by scientific research, that economic and political integration after World War II contributed significantly to the rise in living standards and to political and societal progress. Although the United Kingdom would be most strongly affected by a withdrawal, its potential effects are not irrelevant for the rest of Europe either.

Without the United Kingdom, Europe's voice in the world will be seriously diminished.

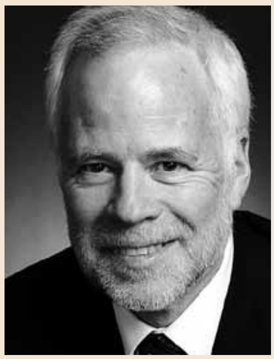
JACOB FUNK KIRKEGAARD
Senior Fellow, Peterson Institute for International Economics

A vote by a majority of voters in the United Kingdom to leave the European Union will have three main casualties: the United Kingdom itself, its relations with Europe, and Europe as a whole.

In the likely event that public majorities in favor of remaining in the European Union in at least Scotland but likely Wales and Northern Ireland, too, are outvoted by a majority in favor of leaving in far more populous England, the United Kingdom itself probably cannot stay together. Scottish nationalists in the SNP have already declared that they will demand another referendum on Scottish independence. And given the volatile economic situation facing the United Kingdom after leaving the European Union, the increasing dominance of England in the United Kingdom, and the relative legal and political ease with which an independent Scotland could rejoin the European Union, they would almost certainly win. The first casualty of Brexit would therefore be the Union of 1707 and the United Kingdom itself.

The next casualty would be good relations between the United Kingdom and the rest of Europe. It is erroneous to assume that a divorce would be amicable and that everyone has an interest in negotiating a mutually beneficial new relationship. As soon as the United Kingdom votes to leave, self-preservation becomes the dominant strategy of the European Union to ensure that other countries don't get the same idea. Negotiations would be both prolonged and nasty. Article 50 in the EU Treaty describing how a country can leave the European Union set the tone clearly in its section 3, which reads "the member of the European Council or of the Council representing the withdrawing Member State shall not participate in the discussions of the European Council or Council or in decisions concerning it." In other words, the EU Treaty demands that the United Kingdom be outside the door when the other EU members negotiate what kind of exit the United Kingdom would be offered. And while the overall agreement is agreed only with a qualified majority, many individual items will touch on areas requiring unanimity. In reality, every remaining EU member can thus block an offer to the United Kingdom. London would, in other words, have to try to pay off every other remaining member state to secure a deal—a recipe for drawn-out contentious negotiations during which the UK economy would continuously suffer from uncertainty and disengagement from its by far largest economic partner. Certainly the rest of the European Union would face negative economic consequences, too, but Brussels would better be able to wait for a solution than London and hence in a far superior negotiating position. In the end, the United Kingdom would likely end up entirely outside common European institutions and the Internal Market, or face the humiliating prospect of adhering to the same EU rules as before, only now without any influence.

Lastly, Europe—the EU28 accounts for a declining 7 percent of the world's population and 23 percent of global GDP—itself would be greatly diminished in the world by the departure of one of its largest nuclear-armed and UN Security Council seat holder members. Without the United Kingdom, Europe's voice in the world will count for even less.



The risk would be the negative impact on investment of an extended period of uncertainty.

BARRY EICHENGREEN
George C. Pardee and Helen N. Pardee Professor of Economics and Political Science, University of California, Berkeley

The "known unknowns" include the possible break-up of the United Kingdom, as Scotland and Northern Ireland split off in order to retain their membership in the European Union. (At least one presumes that this is an unintended consequence.) There is London's possible loss of preeminent financial center status, as the City loses its preferred access to Continental financial markets. There is the greater difficulty experienced by the City and other key sectors of the British economy—high tech and the universities, for example—in attracting talent from abroad as agreements with the French and others to cooperate on border control and contain the flow of economic refugees dissolve and the British are forced to respond with more onerous and disruptive immigration controls of their own.

Most of all, there is the negative impact on investment of an extended period of uncertainty, potentially lasting for years, as the United Kingdom and European Union attempt to negotiate a new set of bilateral agreements covering everything from trade and finance to the mutual recognition of technical credentials.

But then there are also the "unknown unknowns."

The real challenge facing the EU is how to reconcile two very different views of what it is, should be, and will be.

MOHAMED A. EL-ERIAN

Chair, President Obama's Global Development Council, Chief Economic Advisor, Allianz, and author,* The Only Game in Town *(Random House, 2016)

A Brexit, should it materialize, would undoubtedly cause short-term economic and financial disruptions—not just for the United Kingdom but also for the European Union that it leaves behind. Some analysts have gone further and predicted that such instability could also fuel a broader disruptive phenomenon that would lead to the implosion and total collapse of the European Union as a whole. I am not so sure. It is more likely that, should Brexit materialize (a big *if*), the smaller European Union that emerges from the initial air pockets ends up being one that is more unified, coherent, durable and effective.

Consistently, and for many years now, Britain has tended to view the European Union essentially as an *uber*-free trade area. This is in sharp contrast to the vast majority of the other members who have seen it as something much bigger, consequential, and ambitious—namely, an enabler of ever-closer union that, extending well beyond economics and finance, pursues common social and political objectives.

This difference in viewpoints is so deep and fundamental that it ultimately undermines the long-term effectiveness and integrity of the European Union. Moreover, the concessions that British Prime Minister David Cameron skillfully secured from his EU partners serve to widen rather than reconcile this difference—all of which speaks to a rather counterintuitive and, for many, surprising possibility.

While avoiding a Brexit this year would maintain for now the current membership of the European Union, it could end up amplifying the sources of underlying tensions that would ultimately could risk the integrity of the union in a more fundamental sense.

The Brexit referendum is indeed the most immediate issue facing the European Union, but it may not be the "existentialist" threat that many have suggested. The real challenge facing the European Union is how to reconcile two very different views of what it is, should be, and will be.

The two million Britons currently living in other EU countries would instantly face some dire consequences.

PHILIPPE RIÈS

Writer, Médiapart, and author,* The Day France Went Bankrupt *(with Philippe Jaffré), 2006

The question is rather hypothetical because one can bet (safely?) that in the end the subjects of Her Gracious Majesty will come to their senses and vote to remain in the European Union. But let's consider for a moment the aunties of Kent get their way and the United (for the moment) Kingdom decides to "isolate " the Continent.

First, the people most directly affected will have no say in the process : the two million Britons currently living in other EU countries would instantly face some dire consequences. As citizens of the Union, they take full advantage of one of the four freedoms at the heart of the Treaty of Rome, the free movement of people, giving them the right to move, work, settle, and buy properties anywhere across the European territory, with few restrictions (such as applying for public sector jobs). Overnight, they would have to search for resident permits, work permits, even travel visas, at the discretion of the host country.

Second, thousands of British citizens work for the European institutions as eurocrats (notoriously hated by the euroskeptic gutter press in London). From director general to secretary, they populate every layer of the Brussels bureaucracy. If the United Kingdom leaves, so do they. Many more have build a career in Europe's capital city as lawyers, lobbyists, experts, with NGOs, and so forth. In theory, their positions would not be threatened by a Brexit. But in practice, over the long run?

Together with the Irish (as a result of a centuries-long colonial occupation), Britons are the only native speakers of the English language in the European Union, even though some could be regarded as bilingual (Malta and Cyprus). Clearly, the British would not take home with them the *lingua franca* currently dominant in the daily business of the European affairs. For translators, English will long remain the medium of choice between two more exotic languages. But again, it is very likely that France could use that opportunity to regain some of the lost ground and that Germany would seek a use of its language commensurate to its predominant status.

Those are some very mundane and perfectly predictable consequences of a Brexit. Others would be of more existential significance for the United Kingdom. With the departure from Strasburg and Brussels of the British MEPs, the City would lose its best and sometimes only advocates when it comes to financial regulation within the eurozone. If the City has been to the European Union what Manhattan is to the United States or Hong Kong until today for Mainland China, it is hard to imagine that same role in Europe for a financial place located in an wholly estranged country.

So, it seems quite easy to figure out who the losers would be. As for the winners, we are still looking. Bed and breakfasts in Blackpool, maybe. It is a high price to pay to regain sovereignty…over the shape of cucumbers.

The decisive end of the world system the "West" built after World War II.

W. BOWMAN CUTTER

Senior Fellow and Director, Economic Policy Initiative, Roosevelt Institute

Twenty years from now we will look back and see the principal albeit unintended consequence of the United Kingdom's Brexit decision in June 2016 to be the decisive end of the world system the "West" built after World War II.

In the first decade after the war, the group of allied nations that had won the war created a new world system.

It is true that that system of institutions, processes, and treaties never remotely resembled a government. At best it creaked along. Decisions were never easy; follow-through and actual implementation were even harder. National self interest and local politics were always the primary forces. But it also always "sort of" worked. It held together meaningfully for half a century, and it was a critical part of winning and ending the old Cold War. And in many ways the creation of the European Union was the high point of this era.

But we now know that same Cold War provided the essential glue enabling the system to function at all. So long as there existed what was perceived of as an existential threat—the Soviet Union—nations were sometimes willing to swallow hard and work toward common solutions.

When the Cold War ended in the late 1980s, the glue was gone and making the system work became increasingly difficult. But the system still had value. The nations and policymakers that were part of the system knew each other; and the habits of limited cooperation and limited recognition of mutual interests continued for a while.

Looking back twenty years from now, if the exit side wins, we will say Brexit changed all of that decisively.

First, Britain discovered that it had "exited" more than it expected. It became the outsider looking in at all of the formal and informal decision processes in Europe.

Then, Brexit catalyzed a series of other exits. Separatist regions exited from nation states. There were further EU exits. Within twenty years, the European Union was gone. The common market began to disintegrate. The European monetary union faded into irrelevance.

In parallel with the end of the European Union, NATO became harder to hold together—nations simply ceased to believe in the urgency of mutual interests or the reality of the mutual defense obligation.

And any semblance of a special U.S.-UK relationship vanished.

Those "habits" of limited cooperation became more and more tenuous. Nation after nation developed explicit or implicit "coalitions of the willing" strategies regarding international issues and national security concerns. But each such coalition was a quickly thrown together jumble of nations with extremely limited capacity to act, little institutional memory, and few habits of cooperation.

Did Brexit, by itself, "cause" all this to happen? Of course not.

All the strains were already there. But Brexit was that decisive moment when events began to move in a direction that became irreversible.

Brexit would unravel statehood and sovereignty within the United Kingdom.

HAROLD JAMES
Claude and Lore Kelly Professor of European Studies, Princeton University, and author, **Making the European Monetary Union** ***(Harvard University Press, 2012)***

Proponents of "Brexit" believe that leaving the European Union will produce two major benefits: the United Kingdom would be able to control migration more effectively; and it would free itself of intrusive legislation and regulation, especially in regard to financial services. Sometimes Brexiteers cast their argument more generally, as a defense of sovereignty. They also believe that nothing much else would change, and that Britain and Europe would continue peacefully and prosperously trading with each other.

But: there is a big "but" here. One effect of Brexit would be to unravel statehood and sovereignty within the United Kingdom. The United Kingdom is not really a conventional nation-state, but rather a composite. The question of sovereignty and self-determination arises most immediately in the case of Scotland, where the Scottish National Party came close to achieving a positive vote in a referendum on independence. The SNP leadership has already made it clear that it would not be bound by a Brexit vote that did not include a majority in Scotland (as well as in other units, Wales and Northern Ireland). So the exit process that would be launched in a two-year frame by a no vote would also begin the undoing of the 1707 Act of Union which brought Scotland together with England and Wales.

There would also be a profound shock to the rest of Europe, which like the United Kingdom would have its own unraveling. The European Union is a peculiar, and quite delicate, construction. Different members have different conceptions of what they want. Germans—and northern Europeans more generally—regard the United Kingdom as a crucial ally in promoting a market-friendly Europe and in resisting what they think of as the statist and managerial proclivities of southern Europeans. But French and Italian politicians think of the United Kingdom as an ally that protects them against German hegemony, and against the imposition of intrusive rules (for instance on budgetary management). In a logical world, both of these arguments could not be correct at the same time, but in a complex political equilibrium they are powerful. Brexit would thus be the signal to many countries of a Europe that is turning in a wrong direction. Italians, already restive about German fiscal and banking rules, would see a chance to escape. Sweden, Denmark, and perhaps even Germany would see a Europe in which rules are being broken as a Europe that they too need to leave.

Negotiations about special deals are like a game of pick-up sticks (or mikado). Players hope that they can pull a stick out of the pile without disturbing it; but some sticks are in a crucial position, and their removal destroys the stability of the whole system. Voters may be about to pull out the stick that keeps Europe's pile together. When stability collapses, nothing is certain, politics are radicalized, and people flee collapsing and impoverished states. It is unclear that even an independent and sovereign Britain—or England—would be in a position to contain or exclude those movements.

A Brexit would change the European Union's characteristics significantly.

MICHAEL HÜTHER
Director, Cologne Institute for Economic Research

The EU-UK relationship has historically been a difficult one. First, in the 1960s French President Charles de Gaulle opposed a British membership. Then, with de Gaulle out of office, the United Kingdom joined the European Union in 1973, only to hold a referendum on its membership in 1975—a bold domestic policy move pulling together Labour for decades. Back then, the British looked up to continental Europe, and over two-thirds voted "remain."

Until today, the United Kingdom's EU membership is a curiosity. The British rebate and Schengen opt-out give continental Europeans the impression that UK representatives practice cherry-picking while preferring isolation to integration. The economic entanglement between the European Union and the United Kingdom, however, is not to be underestimated. Apart from propagandistic UKIP estimates, most serious researchers quantify stark GDP per capita losses for the United Kingdom (and also for the leftover EU member states) in the case of an exit from the European Union. A recent IZA study simulates a synthetic United Kingdom as a non-EU member from 1973 on. The researchers find that the synthetic UK performs around 25 percent of current GDP per capita worse than the real EU member state United Kingdom. Although other studies find less devastating effects, a self-inflicted Brexit is, frankly speaking, economic suicide.

Which country would voluntarily risk renouncing a quarter of its income? The discussion becomes even more puzzling when zooming in on the British achievements during the last decades: The United Kingdom was the main driver behind the shaping of the single market as well as the integration of former Soviet-dominated countries into the European Union. Today, both initiatives are seen as the building blocks of a prosperous, converging, and peaceful Europe.

Hence, just as in 1975, a Brexit is not in the national interest and neither is it in the European Union's interest. Today, in contrast to forty years ago, the British economy looks more dynamic than its continental counterpart. The referendum might actually be lost! The Kingdom needs the Union, but the Union also needs the Kingdom.

The fragile crisis countries Ireland, Portugal, and Greece would be hit especially hard. These countries have a high exposure to Brexit as they share remarkably tight bank links with the United Kingdom, ranging from 21 percent of GDP in Portugal to 174 percent of GDP in Ireland.

In the long run, a Brexit would change the European Union's characteristics significantly, shifting power away from countries where liberal economic policy dominates. This change has institutional consequences as the liberal country bloc—consisting of the United Kingdom, the Netherlands, as well as the Scandinavian and Eastern European countries—loses its blocking minority in the EU Council. Germany would no longer represent the pivotal swing player. Economic policy would shift away from its market economy anchor, more and more influenced by a politically determined and more regulated environment.

The United Kingdom's valuable contribution to the European Union is reflected in the bargaining position UK Prime Minister David Cameron took when negotiating his deal in Brussels. Although the outcome, which stipulated efforts for more competitiveness and the dismantling of bureaucracy, might seem vague and disappointing, it is a step in the right direction. Furthermore, the British referendum raises fundamental questions about what "an ever closer union"—first set by the Treaty of Rome and lately reinforced by the EU institution's five presidents—actually means.

EU President Jean-Claude Juncker is trying to build a self-centered institutional structure. The demanded intensification of fiscal integration—for example, fiscal capacity—would hamper a sovereign's incentives to build a globally competitive economic structure. It is exactly this European dead-end that the United Kingdom and Germany could fight together, and a battle most probably lost without British influence.

The concessions offered Britain are the thing to watch.

MAREK DABROWSKI
Non-Resident Scholar, Bruegel, and CASE Fellow, CASE - Center for Social and Economic Research

The debate on Brexit focuses on the consequences for the United Kingdom, but largely ignores the impact of the new EU-UK agreement on the European Union. If the "remain" camp succeeds on June 23, 2016, this agreement will be activated with serious consequences for the prospects of the European project.

The most important concession concerns suspension of the reference to "…ever closer union among the peoples of Europe" in the Treaty's Preamble with respect to the United Kingdom and acceptance that this country "…is not committed to further political integration into the European Union." Given that each new area of integration within the European Union may involve a transfer of a certain degree of national sovereignty to the EU governing bodies, this means that no substantial treaty changes (of the sort similar to the Maastricht, Amsterdam, Nice, or Lisbon treaties) will be possible in the future (treaty change requires unanimity of all member states).

The risk of stopping new integration initiatives comes exactly at the time when the European Union needs more internal coherence, power, and ability to respond to numerous challenges such as security crises in the neighborhood, inflow of refugees, and terrorism. The only two ways to move forward will be either via the mechanism of enhanced cooperation (within the EU Treaty) or separate inter-governmental treaties outside the EU Treaty. Both will lead to "integration *à la carte*" and further complication of the EU decision-making process, providing euroskeptics with new anti-integration arguments. Eventually it may lead to the weakening and even partial disintegration of EU governing bodies, as various narrower integration circles will require their own management and coordination mechanisms.

Another part of the draft EU-UK accord will negatively affect the integrity of the European single market by offering exemptions in financial integration and the free movement of people. The first applies to all non-members of the banking union, and can lead to even deeper fragmentation of the single market for banking and financial services.

Changes in the free movement of people can be applied by all member states once they come into force. Although none of them—such as indexation of exported family benefits to the local living costs of the residence country, and limiting in-work benefits to newly arrived workers for up to four years—represents revolutionary change, if taken together, they signal a tendency to restrict the free movement of people within the European Union.

Overall, the concessions accepted by other EU member states to avoid Brexit will not appease euroskeptic politicians in the United Kingdom or in other countries. Even if the "remain" option wins the referendum, euroskeptic sentiments will remain strong. Among other factors, euroskepticism will be fueled by the United Kingdom's increasing detachment from the mainstream European integration process and EU politics. Elsewhere in Europe, the concessions granted to the United Kingdom will encourage euroskeptic forces to demand special institutional solutions for other countries.

Cameron might go down in history as the gravedigger of the European Union.

ANDERS ÅSLUND
Senior Fellow, Atlantic Council

After David Cameron became prime minister in 2010, the United Kingdom ceased playing any meaningful role in the European Union. One of his first acts was to take the Tory Party out of the European People's Party, rendering the Tories irrelevant in European politics. It has gone downhill ever since.

In January 2013, Cameron made his fateful Bloomberg speech, promising a referendum on Britain's membership of the European Union. He enumerated three concerns: "the problems in the Eurozone," the "crisis of European competitiveness," and "a lack of democratic accountability." Looking at the current crises in Europe, the natural question is: Was that all? The European Union is so much more. Cameron's apparent reason was to manage the Tory party, which is now being split on the Brexit referendum.

After Russia started military aggression against Ukraine, neighboring on four EU members, EU countries did not even deliver arms. The United Kingdom with its strong military and skillful diplomats could have strengthened the Western stand against Russia, but it was too preoccupied with its relation to the European Union to do anything. The European Union or the United Kingdom have not participated in the negotiations with Russia and Ukraine.

When Libya and then Syria imploded, Britain and France could together have given Europe a strategic and military backbone, but London focused on its minor complaints about the European Union instead. Britain made minor military contributions but without apparent strategy. France did more, but it does not want to act alone, and Britain is the only other EU country with a significant military capability. Naturally, Washington is increasingly reluctant to assist these irresponsible jesters with real military capabilities.

The dirty truth is that Europe is increasingly undefended. For too long, the continent indulged itself in the generous peace dividend after the Cold War, and too few Europeans understand that peace and security are no longer guaranteed. The Western alliance, NATO, and Europe's security are in danger. After having complained for years about the European reluctance to defend itself, the United States has minimized its troops in Europe.

Similarly, the Tories take the single European market and the fifty EU free trade agreements with third countries as given. They are not. British tabloids love to ridicule EU standards, but they are vital for the single market. Brexit would presumably jeopardize the Transatlantic Trade and Investment Partnership. Norway and Switzerland pay similar per capita contributions as Britain to the European Union, but as non-EU members they have no influence on EU decisions. Brexit would give Britain more restricted trade.

The British preoccupation with Brexit has reduced Britain's relevance in Washington. The so-called special relationship between the United States and the United Kingdom is over. The two European countries that matter in Washington today are first, Germany, and second, France.

Europe needs many reforms, but rather than promoting them, the Tories are hindering them by disengaging from Brussels. Britain will not gain, but lose, sovereignty if it tries to leave the European Union. Such negotiations will take at least two years, and with all the other problems the European Union is facing, Brexit may break the European Union. Cameron might go down in history as the gravedigger of the European Union. Why would Scotland stay under such a bizarre rule?

Brexit would be bad news for the European and global economies.

DESMOND LACHMAN
Resident Fellow, American Enterprise Institute

One has to pray that, in the forthcoming June 23 Brexit referendum, the United Kingdom's electorate will have the good sense to vote to remain in Europe. A vote to leave Europe will not only have profoundly negative consequences for the British, the European, and the global economies. It will also throw into serious question both the survival of the United Kingdom and the European Union in their present forms.

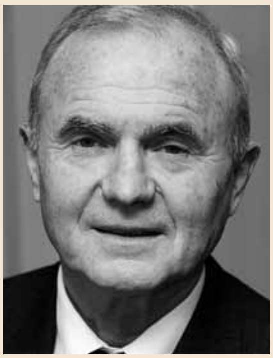
Among the reasons for concern about the forthcoming Brexit referendum is that it will be taking place at a highly inauspicious time for both the United Kingdom and Europe. As Bank of England Governor Mark Carney recently reminded us, the United Kingdom is presently running among its largest external current account deficits in the post-war period. The financing of that deficit makes the United Kingdom uncomfortably dependent on "the kindness of strangers." At the same time, the United Kingdom is currently riven by strong separatist tendencies especially in Scotland, whose electorate overwhelmingly would like to remain in Europe.

Europe is also not in a particularly good position to withstand the blow from a British exit. Its economic recovery is already sputtering at a time when the European economy is yet to regain its pre-2008 peak level. At the same time, Europe is now struggling with an immigration crisis that is putting wind in the sails of the populist and separatist movements across the continent.

After recklessly having committed the United Kingdom to a referendum, Prime Minister David Cameron is now correctly warning that a vote to leave Europe would be to take a leap into the dark. This is not least because of the investor uncertainty that would inevitably follow during the expected two-year period of renegotiation of the United Kingdom's relations with Europe. Investors must be expected to fear that after having been spurned, Europe is unlikely to grant the United Kingdom favorable terms in those negotiations.

In the event that there were to be a Brexit, the United Kingdom should brace itself for a full-blown sterling crisis that would seriously cloud the country's economic prospects and offset any possible long-run benefits from leaving. In a climate of uncertainty, investors must be expected to balk at financing the country's gaping external current account deficit, especially at the same time as important parts of the City of London might be relocating to European capitals upon loss of their "financial passport" to the European market. More serious still, the United Kingdom should brace itself for calls for another Scottish independence referendum that could very well presage the dissolution of the United Kingdom in its present form.

Brexit would also be very bad news for the European and global economies. The last thing that a struggling European economy now needs is a big economic setback to one of its major trade partners or a fresh political boost to its separatist tendencies. Similarly, the last thing that the global economy now needs is the collapse of one of the world's major currencies. That could be the last straw that moves the world to an outright currency war.



The European Union after Brexit will be a different animal.

OTMAR ISSING
President, Center for Financial Studies, Goethe University Frankfurt, and founding Member of the Executive Board, European Central Bank

As economists, we are used to seeing projections on future events which differ substantially. However, calculations on the consequences of Brexit go far beyond this experience. A few predict tremendous gains in welfare, whereas those on the other extreme present a gloomy scenario. This divergence of views among experts must confuse the public. Yet one should expect that voters will anyway decide on the basis of emotions. This makes the outcome of this referendum hard to predict.

The "no" camp sees the advantages of Brexit on the political side mainly in the recovery of full sovereignty including full control of the border. Welfare gains are expected to come from being relieved from European regulations and getting rid of net contributions to the EU budget.

Implicit in this calculation is the assumption that unlimited access to the single market will be preserved. This might be the biggest illusion. The United Kingdom is not Norway or Switzerland. And the European Union after Brexit will be a different animal. The European Union will have to live without British pragmatism, and with weakened resistance to further centralization and regulation. Protectionist attitudes which are popular not only in France will get into a stronger position. The argument that it will be in the interest of EU countries themselves to continue freedom for trade and capital movements after Brexit is economically correct but politically naïve. It will not convince countries which have sympathy for protecting national markets. The argument that getting rid of rigid European regulation will bring a boost to economic activities in Britain is weakened by the fact that according to studies by the OECD, the United Kingdom has the least-regulated labor market and the second-least-regulated product market. And trying to keep all financial activities in London by lighter regulation might turn out as a tremendous risk for financial stability in the longer term.

Over the last three years, Britain had the highest growth of all G7 countries. Was this a result despite EU regulations or at least partly a consequence of taking advantage of the single market, lower regulation, and having retained her own currency?

In the end, this status of a half-detached member of the European Union allowed Britain to enjoy the best of two worlds.

A vote for Brexit may be the best chance the United Kingdom has to save its union.

MERRYN SOMERSET WEBB
***Editor,* MoneyWeek**

On March 24 this year, much of Scotland breathed a huge sigh of relief. Why? Because they were still part of the United Kingdom. Had they voted "yes" to independence in the referendum of 2014, March 24 would have been Independence Day. They would have an economy ravaged by the collapsed oil price and costs of setting up a new state—to say nothing of one of the largest budget deficits in the west (9.4 percent of GDP). Instead, the fact that they had the sense to vote "no" by a very comfortable margin meant that March 24 passed off as any other day—with Scotland relatively secure within the United Kingdom's generous welfare state and fiscal transfer system. However, there may be trouble ahead: surveys show that while the Scots feel similar to the rest of the United Kingdom on almost everything (immigration, welfare, tax policy, and so forth), they are generally slightly keener on the European Union than the rest of us. What if they vote to stay in and England and Wales vote for Brexit? The consensus seems to be that this would trigger another Scottish independence referendum in which the Scots would vote out: effectively choosing the European Union over the United Kingdom. Our very successful union would then be over.

The consensus (as ever) is probably wrong. Instead, a vote for Brexit may be the best chance the United Kingdom has to save its union. The SNP (Scotland's ruling nationalist party) is threatening to hold another independence referendum if the Brexiters win the UK vote. It isn't clear that they really want to. The already dreadful economic case for independence has been destroyed by the fall in the oil prices—and last time around, surveys made it pretty clear that for the undecided the argument came down to money and money alone. However, given that the SNP's stated *raison d'être* is to hold referendums until they win, their members may force them into it and the Westminster government may allow it (this isn't a devolved issue).

If that happens, the SNP won't win. That's partly because of the economics. But it is also about the way the timing works: however fast Scotland tried to vote and negotiate, the United Kingdom would already be long out of the European Union before Scotland was out of the United Kingdom. That would leave Scotland stranded in the North Sea while it reapplied to the European Union—in the full knowledge that it would have to take on the euro and the European Union's fiscal limits with no UK-style federal transfers. Let's not forget that Scotland is currently running a (theoretical) deficit of well over 9 percent and that the European Union gets pretty sniffy about deficits over 3 percent. Scotland would also, presumably, be obliged to become a Schengen Area member state—which would inevitably mean a closed border with England, a country with which it has worked in almost perfect harmony for three centuries. Who would vote for all of that? Quite. And another decisive loss in another independence referendum really would be the end of the matter. Brexit could be the thing that saves the United Kingdom.

The EU's diplomatic, economic, financial, and military footprint would be reduced.

GEORGE R. HOGUET
Global Investment Strategist, Investment Solutions Group, State Street Global Advisors

A Yes vote by UK voters on Brexit on June 23 would add to the uncertainty surrounding the future of Europe and increase financial market volatility. The political impact would be as important as the economic. The United Kingdom is the second-largest contributor to the EU budget; Brexit would establish an important precedent and raise additional concerns about the prospect of a country exiting the euro or of a European sovereign default. The European Union would be less influential in global affairs.

The economic consequences for Britain are not clear-cut and critically depend on the terms of separation and British trade policy with third-party countries going forward. (The European Union's Common Commercial Policy currently prevents the United Kingdom from negotiating bilateral trade deals.) What type of arrangement will the United Kingdom seek with the European Union? Switzerland, which is a member of the European Free Trade area but not the European Economic Area, provides one example. But will a chastened European Union, eager to send a message to future potential leavers, be willing to grant a Swiss-style arrangement?

Predictably, analyses of the net economic cost or benefit of Brexit differ. In the short term, a surprise Yes vote would likely lead to an equity market sell-off and further sterling weakness. In the medium term, a prolonged negotiation of at least twenty-four months with the European Union under Article 50 of the Treaty on European Union on revised terms of access to the single market will lead to major uncertainties, reduce investment, and likely lead to sterling weakness. In the long term, the wisdom of Brexit will depend not just on UK policies but also on how successfully Europe deals with its multiple challenges.

The financial sector would be particularly impacted by a Yes vote. On balance, London's preeminence as a financial center would be weakened, and the United Kingdom's ability to influence global financial regulation reduced. The City's "network externalities" would be reduced, and banks might find it more difficult to attract and retain skilled foreign labor. UK financial firms might seek to relocate their operations to Dublin, Paris, and Frankfurt in order to facilitate market access and reduce regulatory costs. London commercial property values could well fall.

More broadly, Brexit could accelerate fissiparous forces in Europe. "Ever closer union," already weakened by the refugee crisis, would be further at risk. Both separatist movements, for example in Scotland and Catalonia, and EU exit parties would gain encouragement. Germany would become even more influential in the European Union, but the European Union's diplomatic, economic, financial, and military footprint would be reduced with potential adverse consequences for NATO.

The economic and social damage would be considerable.

MANFRED LAHNSTEIN
Former Finance and Economic Minister, Germany

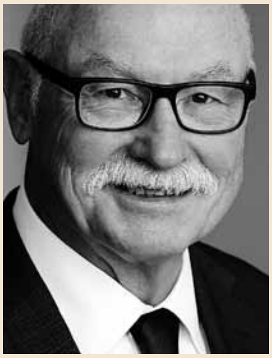
The British prime minister has declared himself to be in favor of British membership in the European Union. The problem is that he is neither master of his own party (cabinet members included) nor of the general "Brexit" debate.

One of the shortcomings of this debate is that it is too much focused on economic issues. The major arguments are on the table and do not need to be repeated here. There is no doubt in my mind that they speak in favor of a continued membership. Should Great Britain leave the European Union, the economic and therefore social damage would be considerable—to a greater extent for Great Britain, and to a lesser extent for the Continent, Germany included. How on earth can one advocate a course of action which inevitably leads to a major loss in individual wellbeing and collective welfare?

My political argument is that a Brexit would deprive London of all possibilities for contributing to a stable and sustainable balance within Europe. As a consequence, the position of Germany would become even stronger. And this is not good—neither for Germany, nor for Europe, nor for Britain! Europe as a whole would see her chances of meeting the real challenges of the decades ahead diminished.

Should this be of concern for Great Britain? It should, of course. And this leads to the core issue: a reasonable definition of national sovereignty. You have to make a choice. Either you go alone, cherish the symbols of national sovereignty, and lose its substance. Or you go with the Union and save the substance of sovereignty by exercising it together with your partners.

Let us thus hope that reason will prevail.



The character and the balance of power in the European Union would change for the worse.

MARTIN HÜFNER

Chief Economist, Assenagon Asset Management

The most important unintended consequence of Brexit is its effect on the remaining European Union. There are a lot of controversies about Brexit benefiting or hurting the United Kingdom. What is widely uncontested, however, is the rest of the European Union and especially the euro area being on the side of the losers.

One reason is that the economic weight of the European Union in the world would be diminished. Population would decline by 65 million. GDP would shrink by 13 percent. In the past four years, annual growth has been one to two percentage points higher in the United Kingdom than in the euro area. Per capita income in Britain exceeds that of the euro area by nearly 30 percent. Without Britain, the single market becomes less deep, less dynamic, and thus less attractive.

This *per se* reduces also the political influence of a union without the United Kingdom. In addition, Britain has a long tradition as one of the global superpowers. It has a permanent seat in the Security Council of the United Nations. It is a strong military power. In a world with rising influence of China and the United States, it will be increasingly difficult for a Europe confined to the continent to safeguard its interests. This challenges the *raison d'être* of the whole European project.

The character and the balance of power in the European Union would change for the worse. Britain is not a member like anybody else. It is a major proponent of democratic values, of pragmatism, and of flexible market-driven economic policies. It is in a sense a counterpart to a number of countries in the Mediterranean south of the Union. This is a special problem for Germany being located between these blocks. If Britain left, it would become much more difficult for the Germans to stand up against interventionist tendencies in southern Europe.

Finally, on world financial markets the position of Europe would be further weakened. British markets for stocks, debt securities, and credit are the biggest in the union. Only together with Britain would the European Union be able to compete in global financial markets. In addition, the United Kingdom has amassed huge know-how and is home to a great number of financial professionals. Despite not participating in the currency union, London is the most important trading place for euros. The value of euro/dollar trading in London currently is twice as high as that on the continent. It would be very difficult for the European Central Bank to tolerate that in case of a Brexit.

Some take comfort in the expectation that in such a case, these trades and their traders would leave London and move to Paris or Frankfort. I doubt that this will happen, at least not quickly and not to a great extent. In my view, the bulk of the financial services would either remain in London or move at least in part to New York and Zurich.

Brexit is either a signal for a fundamental rethink, or a sign that European integration has passed its zenith.

HANNES ANDROSCH

Former Finance Minister and Vice-Chancellor of Austria

The referendum on continuing British membership in the European Union in June 2016 is the second such, following the referendum in 1975 when British Prime Minister Wilson achieved an unexpected 2:1 majority in favor of continued membership. But the unease that the United Kingdom feels towards ever-increasing EU integration, and supra-nationality, goes back to the origins of the European Economic Community in 1958, or even the creation of the European Coal and Steel Community in 1952; as such, it is neither new, nor likely to end, no matter what result emerges in June.

The issue cannot be settled by simple reference to which region is prospering economically. In 1975, the European Union was performing better than the United Kingdom; in 2016 the reverse is the case.

In the corporate world, mergers are not always successful. Segments of the electorate, of varying size, in all member countries, feel that the European Union has surpassed the point of diminishing returns. The United Kingdom, Sweden, and Denmark chose not to become part of the eurozone and show little sign of regretting their decision. Greece, which desperately needs to devalue its currency, is trapped by the irreversibility of eurozone membership for economies in distress, and is damned to an extended period of deflation.

So what will Brexit mean for the United Kingdom? At a political level, it could mark the onset of a period of uncertainty as Scotland appears determined to remain part of the European Union, as does Gibraltar, and the situation in Northern Ireland will require some delicate handling. It could lead to complications in formulating new trading relations between the United Kingdom and the European Union, given the scope of the single market. On the one hand, globalization represents a trend towards an absence of restrictions but, on the other, the European Union will be wary about creating any incentive for other member countries to follow suit.

Exit would provide the United Kingdom with greater autonomy in the vexed areas of social and demographic policy, so that it would no longer be required to shoulder a share of the cost of common policies and initiatives to which it is strongly opposed. The City of London has hardly suffered from being outside the eurozone, as financial markets, especially the Euromarkets and foreign exchange markets, are global rather than merely European. The United Kingdom has always been peripheral to Europe, rather than central, and Brexit is likely to reinforce this.

Brexit poses a greater risk to the integrity of the European Union. The dominant position of Germany and the pre-eminence of German interests, including its industry and banking, are continuing sources of contention. Its current account surpluses are regarded by many as destabilizing, not only within the European Union, and trade negotiations do not give any reassurance that the concerns of consumers, or for the environment, are paramount. Excessive harmonization can be seen as an attempt to eliminate local pockets of comparative advantage, for example in the spheres of taxation or location. EU expansion has been opportunistic rather than based on a clear ideology, both with regard to Eastern Europe and Turkey.

Brexit is likely to provide a watershed in the future of the European Union, either as a signal for a fundamental rethink, or as a sign that European integration has passed its zenith.

The result could be a rise in risk premia and a spreading of financial turbulence from Britain to the continent.

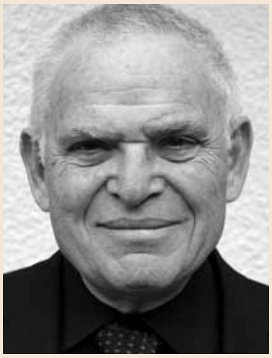
HOLGER SCHMIEDING
Chief Economist, Berenberg

Continental Europe has bent over backward to keep Britain in the European Union. Britain has opt-outs from monetary union and the associated fiscal rules, it is not part of the Schengen zone of reduced border controls, enjoys a rebate on its contributions to the common budget, and is virtually exempt from all integration steps that do not relate directly to the Common Market. The European Union is now even tinkering with its rules on the free movement of labor to appease British populists. The European Central Bank and other regulators have allowed London to be the financial center for the eurozone.

Granting Britain such a special status has not come easily to the other twenty-seven EU members. If British voters reject the offer, the consequences could be significant. First of all, it could shatter trust. Would regulators on the continent allow London to remain the offshore center for the euro-denominated financial market in a messy divorce? Probably not. Second, British politics could get interesting, to put it mildly. A new leader such as the flamboyant Boris Johnson may be able to unite a Conservative party that has been bitterly divided over Europe for three decades. Or he may not. Instead, infighting between the reasonable and the populist wings of the Conservatives could diminish that party, opening a way for an alliance between Labour and the left-wing Scottish Nationalists to come to power at the next UK election. If so, the result could be that a Britain no longer bound by EU standards ends up with more rather than less business-unfriendly regulations. Of course, a Labour-SNP alliance may not hold for longer than it takes for Scotland to leave the United Kingdom in order to rejoin the European Union.

Much ink has been spilled on the potential economic risks for Britain. An exodus of capital from London culminating in a sterling crisis that may force the Bank of England to raise rates is no more than a tail risk. But for a country with the worst twin deficit of all major economies, the risk is not zero.

After a Brexit, the top priority for mainstream politicians on the continent would be to prevent other countries from following suit. France and Germany would probably get together fast to strengthen the core of the European Union and the eurozone through further integration in key areas such as fiscal policy. The "Five Presidents Report" on steps needed to bolster the eurozone could serve as a blueprint. After some noise, the key result of a Brexit could be that Germany and France get back to basics: in a crisis, they move closer together, inviting all other EU members to be either part of such a reinforced core or find new places in a more variable geometry around such a core.

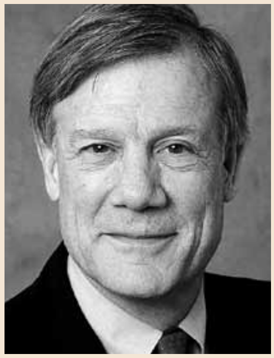


Recent elections across Europe show that what was to be a logical progression has instead become a non sequitur.

EDWARD N. LUTTWAK
Senior Associate, Center for Strategic and International Studies

It is very wise to start by exploring the possible unintended consequences of any vast enterprise such as a negotiated British exit from the European Union. After all, the record of the European Union itself is marked by the many unexpected consequences that ensued once the immensely successful Common Market was complemented by a broadening array of government structures. These include the Commission as a proto-government which has persistently failed to address Europe's immediate problems as it doggedly pursues its own unification agenda, a single currency that paradoxically has widened the income gap between Europe's north and its south, and an executive cadre that continues to evoke ridicule and contempt—and not only because of the purely personal shortcomings of the current President Jean-Claude Juncker, and of the current High Representative for Foreign Affairs and Security Policy and Chief Coordinator and representative of the Common Foreign and Security Policy Federica Mogherini. Their inadequacies are so brutally obvious that their selection can only be explained by the determination of the French and German governments to retain joint control of all significant EU decisions by ensuring the incapacity of its appointed leaders.

The results of recent elections across Europe show that what was to be a logical progression from the Common Market to an increasingly integrated European government has instead become a *non sequitur* for the growing number of Europeans who vote for secessionist parties. Initial dissatisfactions over such things as the Commission's rigid insistence on prohibiting folkloric food processes confined to remote mountain hamlets now seem quaint in the light of the spreading realization that Europe's most successful countries are non-members Norway and Switzerland, followed by the non-euro member countries in order of their non-integration. The implication is that the way forward for most—not all—member countries is to regress to the common market as it once was, sans the euro, and with as little as possible of the current EU structures. Only thus can they regain their vitality.



The tragedy would be a disruption of European integration.

JAMES E. GLASSMAN
Head Economist, Chase Commercial Bank, JPMorgan Chase

The United Kingdom joined the European Economic Community (the Common Market) in 1973 and Brits voted in a 1975 referendum to stay in. However, many complain that what was then a trade association has evolved into something more, with its expanded membership and powerful institutions like the European Parliament and European Court of Justice that reach into aspects of private life and dilute British sovereignty. The recent flood of immigrants from Syria into a community pushing for free movement of people adds to worries. So, once again Brits are voting in a June 23 referendum whether to remain in the European Union or to leave. Those in favor of staying in slightly outnumber those who favor leaving, but many are undecided or are ambivalent about the issue.

The economic costs of exiting from the European Union probably outweigh the imagined benefits, at least in the short run, if only because of the uncertainty that would follow an "exit" vote. Some estimate that EU partnership has lifted UK real GDP by 4–5 percent, surpassing its contributions to the European Union that are about 0.6 percent of GDP after rebates and other receipts. But the truth is that such estimates are difficult to verify and tend to exaggerate the immediate costs. In addition, because the United Kingdom has been able to punch above its economic weight as an intermediator between the United States and Europe, the value of that role would be up in the air if the United Kingdom leaves the European Union. At the same time, the European Union has contributed to the success of Britain's automotive industry that employs 700,000 workers. And the status of London as Europe's financial center, with its 250 foreign banks that employ 160,000, is at stake.

But the economic benefits Britain enjoys as an EU member would not be lost if the United Kingdom leaves the European Union. Britain could go in many directions. For example, she could join the European Economic Area with Norway, Iceland, and Lichtenstein (non-EU members of the European Free-Trade Association, or EFTA). Then there's the Swiss model (the remaining EFTA member that is not in the European Union). Switzerland has negotiated bilateral agreements with EU members. Or, a customs union similar to the one Turkey has with the European Union is another possibility. Alternatively, the United Kingdom could rely on the World Trade Organization's rules for access to the European Union. Finally, the United Kingdom could negotiate a special arrangement for Britain alone that retains free trade with the European Union but avoids the disadvantages of the other options. What seems certain, however, is that none of these options is likely to lead to greater trade liberalization.

Instead, the most worrisome unintended consequence of a UK decision to exit the European Union would be the potential to slow or derail Europe's continued economic integration, if an "exit" vote gives new voice to a current of euro skepticism that lies below the surface. The absence of Britain's constructive voice in the evolution of the European model would be a notable loss. And new doubts about the viability of the European experiment would be trouble for the broader global economy, not just for the United Kingdom and Europe. All of this would be most unfortunate, because Europe's experiment reaches far beyond the economic realm. Of course, the economic benefits of the European experiment are enormous; the leverage Europe gains from economies of scale at the national level give it leverage as global competition increases and new economic giants emerge. But perhaps the greatest benefit of Europe's integration is the political stability it brings to a region that has been tormented by a history of turbulence and social upheaval.

It isn't farfetched to worry that the United Kingdom's exodus would add to Europe's strains. The collapse of confidence in the credibility of the European project very recently—astonishingly, fueled mainly by a surge in fiscal deficits that should have been understood to be cyclical (temporary) in nature, not structural—exposed a shallow confidence in the European project and opened the door to the usual complaints that the European Union's one-size-fits-all policy tools aren't well suited for a region so diverse. That existential crisis passed when the European Central Bank took extraordinary actions, but it temporarily stalled Europe's economy in a way that still reverberates in the struggles of emerging economies.

Anything that disrupts Europe's progress towards continued economic integration certainly would go down in the history books as a great tragedy and this could be the most unfortunate unintended adverse consequence of a decision by Britain to leave the European Union.

Brexit could add momentum to a more general reform movement within the union.

MILTON EZRATI

Contributing Editor,* The National Interest, *former Senior Economist and Market Strategist, Lord, Abbett & Co., and author,* Thirty Tomorrows: The Next Three Decades of Globalization, Demographics, and How We Will Live *(2014)

In one sense, any consequence of Brexit now will have to count as unintended. David Cameron's only intention when he promised the referendum back in 2013 was to disarm his Labour and U.K. Independence Party opposition as well as to quiet the euroskeptics in his own Conservative Party. That domestic political objective found fulfillment when his party gathered a significant majority in the 2015 general elections. Of all the unintended remaining ramifications—the huge economic, political, and financial potentials discussed endlessly in the media—it is hard to choose which is the least intended. Still, one interesting consequence gets very little attention. The United Kingdom's move could well add momentum to a more general reform movement within the union.

The impetus behind this particular unintended consequence was Cameron's need to push before the actual vote for change in the terms of UK membership. In doing so, he has actually raised a number of legitimate issues that trouble other members of the union as well. Matters of sovereignty, for instance, are high on the list, for there is no general agreement within the European Union of the meaning of the phrase, so dear to the union's leadership, "an ever closer union." Along with sovereignty questions, Cameron has also pushed for room within the union for members to pursue different policies on growth, competitiveness, and innovation. These matters, too, have struck a chord with other members as they struggle with the Syrian migration and remain battered by the still-present fiscal-financial crisis that has plagued the union since 2010.

Certainly Italian Prime Minister Matteo Renzi has leveraged the situation. Riding Cameron's agenda, he has made clear that Italy considers a more flexible Europe in its interests. His foreign minister, Paolo Gentiloni, has teamed with UK Foreign Minister Philip Hammond to call jointly for a Europe that can "simplify its functioning" as well as accommodate "both federalists and free traders." The latter might fit better with the UK agenda. Renzi prefers to use the pressure brought by Cameron to talk about a more federal arrangement as Italy's preferred blueprint for an "even-closer integration," both economically and politically.

These are only early days, but the reform push could easily spread. It is entirely likely now that other dissatisfied EU members—Greece, surely, Spain, and Portugal among them—will join Italy to leverage the pressures brought by Britain and advance their own reform agendas. Such a reform effort could gain momentum regardless of which way the UK referendum goes. If the British vote to stay in the union, then that major economy and its prime minister could easily take the lead of a disaffected, reform-minded group within the union, perhaps carrying sufficient weight to counterbalance Berlin and Paris. If the British vote for exit, the loss of this major economy to the union could serve as a stick with which those remaining reform-minded members can beat the EU leadership. Either way, the British referendum will have been the cause.

London would lose business as a global financial center.

NICOLAS VÉRON

Visiting Fellow, Peterson Institute for International Economics, and Senior Fellow, Bruegel

There are multiple sub-scenarios in the aftermath of a No vote on June 23. In almost all of them, however, London would lose business as a global financial center. Part of its unmatched position as a hub for international financial services is linked to its membership in the European Union and corresponding access to the EU internal market.

Most non-UK-headquartered large financial institutions are actively working on post-referendum plans, and take the possibility of a No vote seriously. For understandable reasons, they do not communicate about this planning work and its conclusions. But early indications suggest that their moves following a No vote could be quick and significant, given the likelihood that the United Kingdom would enter a prolonged period of high uncertainty. An order of magnitude of one-third of activity potentially relocated outside of the United Kingdom does not appear far-fetched.

The next obvious question is about who would win the business that London would lose. Inside the European Union, some have expectations that, since Germany and France would be the largest remaining countries, Frankfurt and Paris would be best placed to gain. But this ignores the incentives for financial firms to go to the most finance-friendly places, and there are a number of them in Europe. A rule of thumb of finance-friendliness is provided by the European Commission's ill-starred proposal of a Financial Transaction Tax, whose adoption only a minority of EU member states are considering. FTT doubters such as Denmark, Ireland, Luxembourg, the Netherlands, and Sweden are more likely to attract business from London than FTT supporters including France, Germany, or, for that matter, Belgium.

But even bigger transfers could happen outside the European Union, and specifically to the United States. On almost any measure, London and New York are by far the world's two largest financial centers. U.S. authorities have acknowledged London as a preferred entry point into the European Union for American financial firms, and have built strong working relationships with UK financial regulators over the years. But once the bilateral link with London is no longer part of the larger relationship between the United States and the European Union, one can expect a more competitive stance to favor New York as the best place to do international financial business.

Even more difficult to assess, but arguably also even more substantial, is the opportunity cost of a Brexit. London would have a lot to gain from the continuation of EU financial integration. Banking union, even in its current halfway form, will lead to the opening of more financial business to cross-border competition across the European Union, and so will any concrete moves in the direction of the European Commission's vision of a Capital Markets Union. But if the United Kingdom is no longer in the European Union, it will not be able to reap as much advantage from these future developments as it has in the past steps of EU integration.

The effect on British living standards would almost certainly be to lower them.

JOHN WILLIAMSON
Senior Fellow (1981–2012), Peterson Institute for International Economics

The Europeans—true Europeans, who believe, even if vaguely, in ever-closer union—would be liberated to pursue the European dream, without the constant nagging of UK Prime Minister David Cameron. No longer would they have to put up with British opposition to every proposal for deepening European integration, already witnessed in Schengen and European monetary union, followed after the failure of outright opposition by a series of demands for favorable treatment of the United Kingdom.

In what directions would one hope to see the Europeans press on with integration after being freed of the British albatross? A first area is bound to be capital market integration, in which the Commission has already expressed an interest and made proposals. One can anticipate a struggle between Paris and Frankfurt to take over the mantle being vacated by London as financial capital of Europe. A second area is cultural: Europe is crowded with relics of the past that need preserving, and the cost is too often beyond the means of local governments. Given the importance of culture in attracting tourists, and the presence of significant spillover effects between small European countries, it is not difficult to envisage a beneficial European initiative. A third area is transport. There are still far too many, and unnecessary, difficulties at the frontier in traveling around Europe, caused by different road and railway systems and even different train gauges, and the contrast with America is painful. A European transport system, besides the air transport system which works well, would be a real boon.

None of this is to deny that the more obvious consequences of Brexit would be negative. The effect on British living standards would almost certainly be to lower them. The British have generally helped to maintain Europe as a relatively outward-looking bloc for the past forty years. But these losses might be offset, or more than offset, by a revival of the European spirit, which the United Kingdom—under governments of both parties—has never shared.

Political backlash is the greatest danger.

LORENZO CODOGNO
Visiting Professor, London School of Economics and Political Science, and Founder and Chief Economist, LC Macro Advisors Ltd.

American comedian and actor Groucho Marx once famously said, "Please accept my resignation. I don't care to belong to any club that will have me as a member." The very fact that the United Kingdom is a member of the EU club makes the European Union less appealing. Why? Because the United Kingdom has always opposed further integration and any move towards fiscal and political union, *de facto* limiting the possibility for the European Union to strengthen its institutional framework. At the same time, the United Kingdom has always been adamant in preserving and improving the single market for goods and services and a strong supporter of market-based reforms. This almost naturally leads to a double-circle approach for Europe: a core group of countries pursuing ever-closer integration, and a larger circle interested mainly in maintaining free movement for goods and services, which would include the United Kingdom, the Nordic countries, and a few others. A vote in favor of Brexit would effectively clarify, without any residual doubt, this double stance and lead to Treaty revisions.

Is a referendum the best way to achieve this? Probably not. First, it is not in the best interest of the United Kingdom. A vote in favor of "leave" would open a two-year period during which there would be negotiations with the rest of the European Union, and the United Kingdom would inevitably be in a much weaker position. It would have been better to wait for the next Treaty change and negotiate a similar outcome from a much stronger footing. Moreover, leaving the European Union would open up uncertainty for UK-based businesses that could decide to leave, relocate part of their activities, or open at least a subsidiary in the European Union. Although nothing would effectively change during the two-year interim period, businesses would be willing to prepare themselves and hedge against possible unfavorable outcomes.

However, a "leave" decision would also risk producing unintended negative results in financial markets. It could be perceived as a colossal no-confidence vote on the future of the European Union, which would dwarf the outcome of the Danish referendum on the Maastricht Treaty in June 1992, which triggered a currency crisis. The reaction of financial markets is difficult to predict and may include a weakening of the pound against the euro but also a weakening of the euro and euro-denominated assets against everything else. By contrast, it would not be inconceivable to see the opposite reaction, that is, a strengthening of EU assets, on the grounds that the United Kingdom leaving would free the remaining part of the club to pursue ever closer union, thus improving the long-term economic outlook.

On politics, a "No" vote would risk opening up a Pandora's box of recriminations, other countries' attempts to break free (Poland, Hungary, the Czech Republic, or even Finland, which is in the eurozone?), separatist tensions (including Scotland?), and would strengthen the populist and anti-Europe parties and movements within each country. This may lead to an even more fragmented and divisive stance on a number of issues. The potential political backlash would be by far the most dangerous result.

Foreseeable power realities will doom post-Brexit British chances for more profitable non-EU trade agreements.

CLAUDE E. BARFIELD

Resident Scholar, American Enterprise Institute

For almost two centuries (since the Corn Laws of the 1840s), Great Britain has generally stood for free trade and market liberalization, over much of that time as a stand-alone nation but in recent decades within the confederation of the European Union. On most occasions in the European Union, it led a pro-market alliance with the northern economies, the Netherlands, Sweden, Denmark, Belgium, and (on occasion) Germany. Yet on trade and market liberalization, Brexit proponents foresee an "unshackled" Britain which will be freed to negotiate new, more liberal trade and investment agreements with former EU partners, and with major nations around the world, including the United States and the BRICS (particularly China and India). Unfortunately, there are unintended negative consequences from Brexit that will blight relations with the European Union—and clearly foreseeable geo-strategic economic power realities that will doom post-Brexit British chances for more profitable non-EU trade agreements.

On the unintended side, a European Union without the free market weight of the Brits will certainly tilt strongly toward greater protection and state intervention—think Hungary and the new Polish government. Good luck also with negotiating more liberalization on the services frontiers of trade policy such as digital software and apps developers, biotech researchers, architectural designers, and new digital-enabled financial services. As for striking highly favorable trade deals with the big emerging markets such as China, India, and Brazil, don't count on it. The days when the governments under Queen Victoria could dictate terms to the "uncivilized" world are long gone. Today, Britain is just another mid-sized country, without the clout to bring pressure on the likes of China—not least because today the size of the Chinese economy is almost five times that of Britain. And the technology and service sectors where liberalization would benefit British industry most are the sectors most protected and characterized by state domination.

There may be good reasons for London to bail from the European Union, but they don't reside in the trade and investment area.

Unintended consequences may range beyond political economy to foreign and security policy.

MICHAEL J. BOSKIN

Tully M. Friedman Professor of Economics and Hoover Institution Senior Fellow, Stanford University, and former Chair, President's Council of Economic Advisors

Major changes such as Brexit are frequently accompanied by unanticipated consequences. Of course, predicting them is difficult; as the great American philosopher Yogi Berra said, "Predictions are tough, especially about the future." A helpful taxonomy discusses the consequences for Great Britain, for the European Union, and for the rest of the world.

Most straightforward for the United Kingdom is the potential hit to its substantial trade in goods and services with the European Union. The European Union is the world's largest market and accounts for a large fraction of UK trade; exports and imports each amount to 30 percent of British GDP. So consequences for the United Kingdom's, the European Union's, and the rest of the world's trade flows are important and will depend upon the terms and timing of new trade agreements.

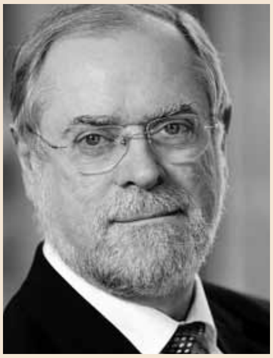
There is no precedent for a large EU country to secede, and Brexit would involve a two-year negotiation of terms, which is likely to increase pound volatility, divert or delay some exports and imports, and postpone investment in UK trade-related industries. Would Britain be like Norway, joining the European Economic Area, minimizing trade reduction, but paying most of its regular member budget cost for the privilege? Like Switzerland, with bilateral trade agreements, at lower fiscal cost to be part of the single market in goods, but not services? Go it alone in the World Trade Organization? Or some new model? Britain may need new trade agreements with a host of non-EU countries. Particularly important to the United Kingdom in this context is the role of London as a global financial center and the substantial concentration of financial services trade in the City.

UK Prime Minister David Cameron secured some helpful relief in the Brexit negotiations, but the United Kingdom could still be affected by the future evolution of EU policies. If Britain retains EU trade preferences by paying a (now smaller) budget share, a larger EU budget, for example, from future financial subsidies to support highly indebted periphery countries, would hit the UK budget. With Britain out, the power of Germany and France and what might be called the "large welfare state coalition" to shape the European Union will be enhanced. A European Union without Britain's leavening effect likely would cost more and provide less for its members. While free of some European Commission burdens, going its own way also might generate unintended consequences.

The potential internal British political dynamics accompanying Brexit raise a new set of risks. Will a substantial faction, and its voting base, "CONEXIT," Conservative Party exit? What new coalitions will form, and what does that mean for future UK economic policy?

The unintended consequences may range far beyond political economy, to foreign and security policy, which will be heavily influenced by the strength of the UK economy and the pressures on its budget.

A vote to remain does not mean Britain is in forever, no matter how the European Union, European Commission, and euro evolve. Britain has the (asymmetrical) option of Brexit later. But if it exits, re-entry is likely to be difficult and on worse terms than Mr. Cameron has secured for his country should it remain.



An EU disintegration after Brexit is not a likely possibility.

KLAUS F. ZIMMERMANN
Professor of Economics, Bonn University, and John F. Kennedy Short-Term Fellow, Center for European Studies, Harvard University

Europe is facing a large number of challenges. Its labor force is aging and shrinking. It is economically and politically threatened by the rise of Asian states. It is disorganized and unable to cope with the euro, refugees, terrorism, and the Ukrainian war, and suffers large delays in joint decision-making—if decisions come at all. For years, we have witnessed a rise in EU-skepticism and an ever larger mistrust in European institutions, while anti-European right-wing parties grow stronger. Hence, Brexit may be seen as a "luxury crisis," adding to the present disaster and not solving any of the existing problems.

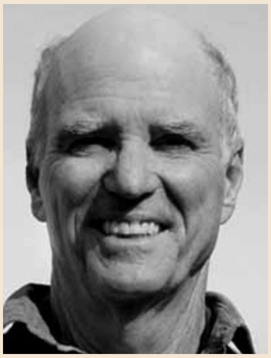
The Brexit would leave a different European Union in its wake. With a loss of about 13 percent of its population and 15 percent of its earnings, the European Union would be a significantly less powerful economic zone. The voting balance between the north and the south would also shift: Currently, the northern and the Mediterranean countries have blocking minority votes. The remaining north would face a larger demand for transfers by the lesser-endowed countries in the south and east. Other country-members could leave, and without a common vision the European idea would collapse.

However, an EU disintegration after Brexit is not a likely possibility. While it would probably be a coup to clear the table, we can re-invent the European idea with a better integration and identity strategy that would allow for a more dynamic union. A new flourishing core of Europe could establish the European dream with new trade zones with the north and the south of the Mediterranean. Turkey could join the new European Union, thereby strengthening the southern element of the community with a large diaspora already present in the current union. In the sequence, the Scots would probably leave the United Kingdom to join the new Europe.

The core of the current crisis is the hesitation of the member states to strengthen the political integration strategy. With the British "no," the countries left behind after

Brexit can develop much faster. The current challenges call for a Europe as a whole, and less for national sovereignty. Europe needs more burden-sharing, more migrants to deal with aging societies, and more labor mobility to increase welfare.

To deal with the dissatisfaction with European institutions, which are part of a larger mistrust in government in general, less bureaucratic interference is needed in matters that can be done at the national level. Essential parts of the European model like the common market as well as reliable solidarity and reciprocity foundations should be strengthened. The further development of the European identity is essential.



Brexit will hit the UK economy much harder than its promoters expect.

JEFF FAUX
Distinguished Fellow and Founder, Economic Policy Institute, and author,* The Servant Economy *(Wiley, 2012)

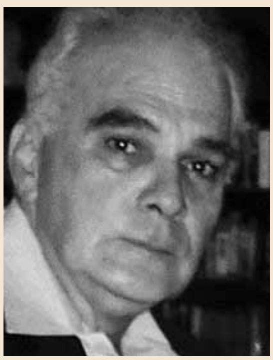
The prolonged uncertainty following a win for Brexit will hit the UK economy much harder than its promoters expect. It will take at least two years to negotiate the terms of the pull-out with the remaining twenty-seven countries, who are unlikely to give Britain anywhere near its current privileged access to their customers or to their financial markets. It will then take even longer for the United Kingdom to find and negotiate trade deals for other export markets at a time of spreading deflation and rising protectionism throughout the globe. Pile on the political complications of disentangling British business regulations from rules made in Brussels, and the adjustment process could take as much as a decade.

By that time, Britons may well end up with less sovereignty over their lives than they have today. Membership in the European Union comes with constraints, although the British already have an arrangement that gives them special flexibility. But it also provides the average Brit some protection against the brutalities of unregulated global markets. Divorced from the bargaining power of the European Union, Britain's social safety nets could be further sacrificed to future governments' desperate search for new trade and investment deals to compensate for the loss of privileged access to the continent.

Perhaps the most serious danger is the potential dismemberment of the United Kingdom itself. Scotland is very pro-European Union, and the Scottish First Minister has already promised that in the event of a Brexit win there will be a new referendum on independence to allow Scotland to join Europe as an independent nation.

Ironically, a rejection of the Brexit might also have some unintended consequences for the UK conservatives who put the referendum in play. Depending on its margin, a re-affirmation that Britain's future is tied to Europe might ultimately move the ideology of the British electorate closer to the social democracy of its continental neighbors, thus, for example, reinforcing the efforts by Jeremy Corbyn to return the Labour Party to its socialist roots.

Across the Channel, a divorce from Britain might ultimately benefit the European Union. In the short run, disruption and uncertainty will take its toll on both sides. But without the drag of British neoliberal ideology, the core continental governments might be freer to tackle the economic contradictions that have stunted their collective growth and led to the revival of the nationalism that the European Union was designed to overcome. The European policy paralysis that followed the 2008–2009 recession showed the folly of integrating markets without creating sufficient collective political authority for macroeconomic stability. The result has been a default policy of austerity. A Brexit might just be a catalyst for a new grand bargain—perhaps involving just the eurozone—that would marry authority for common fiscal and monetary policy with a commitment to fully shared prosperity.



If Britain votes to exit the EU, it will be voting to get rid of 13,000-plus acts, rules, and regulations.

CRITON M. ZOAKOS
President (1994–2014), Leto Research LLC

The Brexit referendum will test the veracity of the claim that international economic integration is impossible without supranational governance. This is what the opponents of Brexit claim, while the Brexit proponents argue that international economic integration will be better served with a reassertion of national sovereignty over supranational governance.

Indeed, the European Union insists that if a country wants to have access to its markets, it must accept the entire body of *acquis communautaire,* that is, the entire body of EU legal acts, court rulings, and bureaucratic regulations that have nothing to do with free trade and touch on matters ranging from sports team uniform designs and barmaids' cleavage regulation to speech code, cultural/education policy and immigration, and politically correct law enforcement. Most if not all of this *acquis communautaire* serves no purpose other than the assertion of supranational governance and subversion of traditional national sovereignty.

If Britain votes to exit the European Union, it will be voting to get rid of the 13,000-plus acts, rules, and regulations of the *acquis communautaire,* but otherwise to continue Britain's economic relations with the Continent.

One unintended consequence will show up in the reaction of the EU leadership to a probable British vote to exit the European Union. A lengthy period of UK-EU negotiations will follow Brexit, whose purpose will be to redefine UK-EU relations. The European negotiators will have a choice between preserving the mutually beneficial economic relations (the European Union maintains a healthy trade surplus with the United Kingdom) even after Britain has rejected the rest of the *acquis communautaire,* or terminating/curtailing those economic relations in order to punish Britain for its rejection of the European Union's oppressive legal scaffolding.

If the European leadership chooses to preserve UK-EU economic relations, they will be signaling to the other members of the European Union that it is not necessary to accept the comprehensive supranational overlordship of Brussels in order to enjoy the benefits of international economic integration and free trade. But if, in order to whip into line the remaining EU members, the leadership decides to destroy the hitherto beneficial UK-EU economic relations, the EU leaders will be signaling that their true institutional interest is not international economic integration but the political power of supranational governance arrayed against national sovereignty and the democratic institutions that underlie that sovereignty.

In opposing Brexit, the ideologues of political Europeanism argued to the British public that their Europeanism is motivated by their solicitous concern to preserve the benefits of international economic integration. If Brexit wins the referendum, these ideologues must either accept that international economic integration can also be served by strengthened national sovereignty without supranational governance, or they must resort to the unintended consequence of demolishing economic integration in order to preserve supranational rule. ◆

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