

JUNE 2016

The Brexit briefs

Our guide to Britain's EU referendum



ON JUNE 23rd Britain will hold a referendum on whether to remain in or leave the European Union. This will be the country's most important vote in at least half a century. Alas, the debate has often been neither informative nor enlightening. The Economist is not neutral: we are convinced that a decision to leave (a so-called Brexit) would be bad for Britain, Europe and the world. But we also believe in the importance of objective analysis and reasoned argument. Over the past few months we have published a series of factual briefs that examine the main issues around Brexit. To help interested readers, we have now assembled all our Brexit briefs together.



Zanny Minton Beddoes, Editor-in-chief

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to take part in "a severe contest between intelligence, which presses forward, and an unworthy, timid ignorance obstructing our progress."

Editorial office:

25 St James's Street London SW1 1HG Tel: +44 (0) 20 7830 7000



1. March 5th 2016

In, out, find a fib to shout

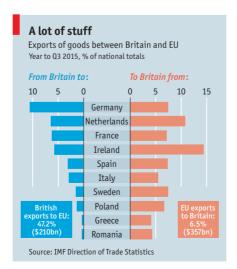
Voters want facts about Britain and the European Union-but these are elusive

HAT I want is facts...facts alone are wanted in life." Thomas Gradgrind's grim message in Charles Dickens's "Hard Times" is echoed in the debate ahead of the referendum on June 23rd about whether Britain should leave the European Union. Voters confused by claims made by opposing sides and in the media are asking for plain facts on Britain's EU membership so they can make up their minds. Sadly, hard facts are hard to find.

There is a good reason for this: nobody knows what would happen post-Brexit. That is especially true of the trade deal that Britain would have to negotiate with the EU—and how long that might take (the government this week suggested up to ten years). But there is also a bad reason: that the uncertainty lets all sides distort, exaggerate or simply make up their own facts.

Three examples illustrate this. The first is an old assertion that 3m jobs in Britain depend on trade with the EU. In fact, because of the close links among European economies, many economists reckon the true figure is higher. Yet the claim some-

times made by pro-EU voices that all these jobs would be at risk post-Brexit is a non-sense. Nobody can plausibly argue that all trade with the EU would cease. Anyway, job creation depends more on demand, wage levels and labour laws than on membership of a trade block.



The second example concerns the British contribution to the EU budget. Leavers claim that Britain pays an unfairly large amount of almost £20 billion (\$28 billion) a year to Brussels, or £55m a day. In fact this is the gross amount before deducting both the rebate won by Margaret Thatcher in 1984 and the money the EU spends in Britain. Adjusting for these, and for the funnelling of some foreign-aid spending via Brussels, the net payment is less than one-third as big, at £17m a day—and Britain is only the eighth-largest contributor per head.

The third example is competing claims about trade patterns. Remain campaigners say the EU takes 45-50% of British exports, whereas Britain accounts for a tenth or less of the EU's. Yet Nigel Farage, leader of the anti-EU UK Independence Party, has said Britain takes 20% of EU exports, giving it a stronger hand in future trade talks.

One issue here is which source to use: Europe's statistical office, the British government and the IMF all have different figures. Another is whether to cover just goods or to add services. But the biggest question is whether to count the EU as a block, discounting all intra-EU exports. Doing that puts the share of EU exports going to Britain at almost 16%. But John Springford of the Centre for European Reform, a think-tank, points out that, in trade negotiations, individual countries, not the EU as a whole, decide what to accept. Britain's share of all other EU countries' exports is only around 8%, he says (our chart, using IMF figures, puts it even lower), and in many individual cases a lot less, leaving it in a weaker bargaining position.

The arguments over facts in these areas are as nothing compared with the differences on migration and sovereignty—nor compared with the bitter rows within the Tory party. What should undecided or poorly informed voters do?

Fortunately, there are some good sources they can turn to. Two websites—the broadly neutral fullfact.org and the pro-EU infacts. org—both puncture myths in the debate. The House of Commons library produces excellent reports, which are available online. And a group of academics led by

Anand Menon of King's College, London, have set up "The UK in a Changing Europe", financed by the Economic and Social Research Council, which has a lively website.

The Economist is not neutral in this debate: we believe Brexit would be bad for Britain, Europe and the world. But we also want to explain the issues and present the facts. So over the next four months, we will publish a series of Brexit briefs that seek to do this, as dispassionately as possible—in the hope of satisfying even the Gradgrinds among our readers.

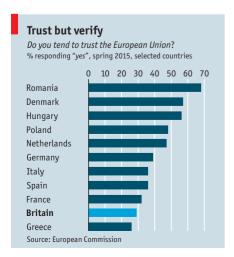
2. March 12th 2016

The roots of **Euroscepticism**

Why Britons are warier than other Europeans of the EU

COMMON (sometimes exasperated) question from abroad is: why is Britain having a referendum on its EU membership? The simple answer is that David Cameron promised one in the Conservative Party manifesto for last May's election. But the deeper one is to be found in the rise and rise of British Euroscepticism.

The origins of today's EU lie in the ashes of post-war Europe. Reconciliation between France and Germany, urged by Winston Churchill in 1946, led to the creation of the six-member European Coal and Steel Community in 1951 and the European Economic Community in 1957. But a wary Britain, keen to preserve links with the Commonwealth and America, stood aside from both. Only in the 1960s did the British, impressed by the continent's stronger economy, try to join, eventually doing so in 1973.



What this history shows is that Britain has an essentially transactional relationship with the club. Membership has been evaluated in terms of costs and benefits, not as an emotional commitment. Moreover, as a latecomer, Britain has often found the EU's organisation and policies uncongenial. This was reflected in Margaret Thatcher's battles in the 1980s to cut the outsized British budget contribution.

Over the years the political base of British Euroscepticism has moved from left to right. In the early years Labour was the more suspicious party. In 1962 its leader, Hugh Gaitskell, warned that joining the common market would end 1,000 years of history. In 1975 Harold Wilson dealt with Labour splits over Europe by staging a renegotiation and putting the result to a referendum—a tactic remarkably similar to Mr Cameron's today. In the early 1980s, Labour was once again set on withdrawal.

The pivotal moment came in 1988, when the European Commission's president, Jacques Delors, promised the Trades Union Congress that Europe's single market would be buttressed by tougher labour and social regulations. This reinforced Thatcher's growing Euroscepticism, and led directly to her Bruges speech attacking excessive EU interference in the same year. Her political downfall two years later was triggered by her denunciation of Mr Delors's plans for closer EU integration and a single currency. This marked the point when the Tories replaced Labour as the party of Euroscepticism.

Mr Cameron not only inherited this as party leader in 2005 but also, as prime min-

ister after 2010, had to deal with a growing threat from the even more Eurosceptic UK Independence Party (UKIP). His response, in his Bloomberg speech in January 2013, was, like Wilson's 40 years earlier, to promise a renegotiation and referendum.

Yet today's shrill debate over Brexit reflects mainly internal Tory party politics. Most voters are less excited. Opinion polls suggest that they see Europe as a relatively unimportant issue. Moreover, in most elections since Britain joined the club in 1973, voters have delivered majorities to the more pro-EU of the two main parties.

Even so, the roots of British Euroscepticism are deep. Matthew Goodwin of the University of Kent, who has studied the phenomenon and written a history of UKIP, reckons they are cultural as much as political. Britain, he says, forged its identity against perceived threats from across the Channel. He adds that, although the young and better educated tend to be less Eurosceptic, the popular notion that it is only older working-class voters who favour Brexit is not correct.

Nor is it right to argue that British-style Euroscepticism is oozing all over the continent. Certainly there is growing disillusion with the EU, especially over migration and the euro's woes. This has fostered a form of soft Euroscepticism (see chart). Unlike in Britain, it is young people who are most susceptible, because they suffer the most from high unemployment. Yet there is no serious debate anywhere but Britain about leaving the EU. Only if a post-Brexit Britain were a big success might that change—which is one reason why the EU will not want to help bring that about.

3. March 19th 2016

Dreaming of sovereignty

Talk of taking back power may be delusional, but more democracy is not

AKE control" is the main slogan of the Vote Leave campaign. Indeed, the argument that Britain has lost sovereignty, and even its democracy, by being in the European Union is at the heart of the case for Brexit. Michael Gove, the justice secretary, complains that "our membership of the EU stops us being able to choose who makes critical decisions which affect all our lives". Boris Johnson, the mayor of London, says that EU membership is incompatible with parliamentary sovereignty. Many of



their fellow Brexiteers claim that, even if leaving has a price, it is worth paying to regain control.

Despite fighting to stay in, David Cameron shares some of these concerns. The prime minister is proud of the European Union Act of 2011, which makes any treaty passing new powers to the EU subject to a referendum. He fought hard last month to win a British exemption from the European goal of "ever closer union". The government says it is still working on a bill to assert Parliament's supremacy.

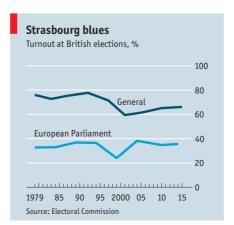
There are three strands to the sovereignty argument. The first is the pure concept of parliamentary supremacy. Before the 1972 European Communities Act, the then Tory prime minister, Edward Heath, insisted that "there is no question of any erosion of essential national sovereignty". Yet this was true only in the sense that Parliament can repeal the act (a right confirmed by the very holding of a referendum).

What Heath's phrase skated over was the second strand: that EU membership means that European law trumps national law. This was established in the Factortame cases in the early 1990s, when a British parliamentary act on ship registration was voided by the European Court of Justice after complaints by Spanish fishermen. Vernon Bogdanor, a constitutional historian, says EU membership (along with devolution to Scotland, Wales and Northern Ireland) means parliamentary sovereignty has in practice been eroded. This is true even if Britain copies the sovereignty claims of the German constitutional court, since these have never been tested.

Many talk of being sovereign as if it were like being pregnant: one either is or is not. The truth is more complex. A country can

be wholly sovereign yet have little influence. Britain has signed some 700 international treaties that impinge on sovereignty. Although the EU has the biggest impact, others count a lot: membership of NATO, for example, creates an obligation to go to war if another member country is attacked. It can be worth ceding this independence to gain influence. Mr Cameron has warned Brexiteers against pursuing what he calls the "illusion" of sovereignty.

They may do better pursuing the third strand: democracy, or rather the lack of it. It is wrong to argue, as some do, that EU laws are imposed by unelected bureaucrats in the European Commission. In fact, although the commission proposes draft legislation, it is adopted by the Council of Ministers, consisting of elected national governments, and the elected European Parliament. Moreover, the commission may be unelected, but the choice of Jean-Claude Juncker of Luxembourg as its president was made after he was chosen as the centre-right's "lead candidate" before the 2014 European elections.



Despite this, there is undeniably a democratic deficit in the EU. It is supranational, but elections (including European ones) are fought on national issues. There is no Europe-wide demos. Voters cannot throw out the EU's collective leadership. Both the council and the parliament are remote and unaccountable, with decisions often agreed on by shifting alliances. This may partly explain why voter turnout in European elections is so much lower than in national ones (see chart).

As Simon Hix of the London School of Economics notes, this matters especially to Britons, who are not used to coalition government. The demise in the 1980s of the Luxembourg compromise, which gave EU members a form of veto, and the spread of majority voting have also led to Britain being outvoted more often. This is where another of Mr Cameron's ideas may help: more say for national parliaments.

In 2013 Mr Cameron called national parliaments the "true source" of democratic legitimacy. Yet they have played only a marginal role in the EU. That is to be beefed up by a deal whereby if 55% of national parliaments object to a law it is withdrawn (a "red card"). There are also plans for parliaments to suggest laws (a "green card").

There is an irony here for British Eurosceptics who like to trumpet parliamentary sovereignty. National parliaments in Denmark, Sweden and the Netherlands are far better at overseeing their governments' EU policies. In Britain, moreover, the elected House of Commons is less effective than the unelected House of Lords. That is partly because MPs can be shamefully ignorant of EU affairs. But just now it is also because MPs are consumed by arguments over Brexit.

4. March 26th 2016

Unfavourable trade winds

It would be hard for Britain to negotiate good trade deals post-Brexit

RADE is at the heart of the European Union. Indeed, many Brexiteers claim that in 1973 Britain joined a free-trade area that only later morphed into political union. Leaving the union would not interrupt trade with the continent for long, they suggest, since a new free-trade deal could be swiftly agreed. Yet the EU's single market is deeper than a free-trade zone. It dismantles both tariffs and nontariff barriers involving standards, regulations or rules of origin. That explains why joining the EU boosted Britain's exports so much—as the chart shows for former West Germany.

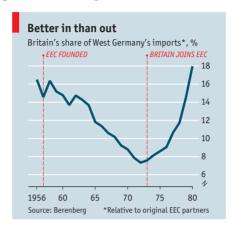
The EU is clear that non-members like Norway can have full access to the single market only if they accept most of the rules, including the free movement of people, and contribute to the EU budget. Switzerland has less access (its banks, for instance, are restricted in the services they can offer within the EU), yet it still accepts most rules and pays into the budget.

Brexiteers argue that Britain, as Europe's second-biggest economy, would use its clout to get a better deal. They say Britain's big trade deficit with the rest of Europe means the EU needs the British market more than the other way round. And if no deal were done on single-market access, they reckon relying on World Trade Organisation (WTO) rules or having a free-trade deal like Canada's would be good enough.

Yet the atmosphere post-Brexit would be frosty. The EU would have a big incentive to be unhelpful, for fear that other countries might copy Britain in leaving. Even at the best of times, the EU finds it easier to deal with small countries; protectionist interests within Europe resist deals with bigger ones. Any trade offer from the EU requires the approval of all 27 other member countries, plus the European Parliament.

As for the trade deficit, what matters is the share of exports: some 45% of British exports go to other EU countries, whereas only around 7% of their total exports come to Britain. It is true that German carmakers would want to sell to the British market. But several other countries run bilateral deficits with Britain or barely trade with it at all; a deal would not interest them.

The WTO option would not remove non-tariff barriers, nor even tariffs on many



products, such as cars (which attract a levy of around 10%). The Canadian deal does not cover all goods. And both the WTO and Canadian options omit most services, including financial ones, which make up Britain's biggest exports to the EU. Rival financial centres such as Paris, Frankfurt and Dublin would seize the chance to win back business following Brexit.

Hopes of easy trade deals with the rest

of the world also look illusory. Lawyers say Britain would have to replace all the EU's 53 free-trade pacts, which would be hard with tough negotiators like South Korea or Mexico. Several big countries, including America, China and India, are negotiating new deals with the EU, from which a post-Brexit Britain would be excluded.

A free-trading Britain, say Brexiteers, would no longer be held back by protectionist EU members. But other countries' trade negotiators might find the British market of 65m consumers less alluring than the EU's 500m. The top American trade envoy, Mike Froman, has said his country would not be interested in a bilateral deal with Britain. Agreements that China has signed with Iceland and Switzerland are lopsided towards the Chinese.

There are also practical problems. Because Britain has been in the EU for over 40 years, it has little experience of bilateral trade negotiations. The rules for exit say a trade deal with the EU should be done in two years, yet this is optimistic—the Canada deal took seven years and is still not ratified. Uncertainty over future trade pacts is a big reason why economists think Brexit would damage the British economy.

A former EU trade commissioner, Lord Mandelson, says free-trade agreements "do not come free, do not cover all trade and take ages to agree." He adds that trade deals are "started by liberals but finished by protectionists". His conclusion is that a post-Brexit Britain would end up with fewer and worse trade deals than it has now.

5. April 2nd 2016

Let them not come

Hostility to large-scale European Union migration could decide the referendum

OLLS say immigration is voters' main concern, so the issue was always going to play strongly in the Brexit debate. David Cameron's Tory government has promised to bring net migration below 100,000 a year but the latest number was 362,000. Worse, much of the upsurge is accounted for by a rise in EU immigrants. That is why Mr Cameron fought so hard to win a four-year delay in granting in-work benefits to them in his EU renegotiation.

Despite Mr Cameron's deal, immigration is one subject on which Leave campaigners have a clear lead. The correlation between hostility to immigration and support for

Brexit is high, so if they can turn the vote into one about migration, they will win. Yet in trying to do this they not only ignore much economic evidence about the impact of migration but also muddle several unrelated strands of the subject.

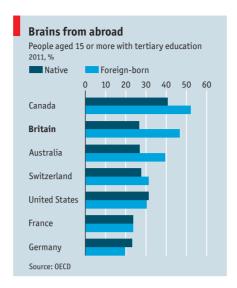
They say Britain has lost control of its borders. In fact anyone entering Britain (except from Ireland) must pass through border checks. Or they point to Europe's refugee mess, although since Britain is not in the EU's Schengen passport-free zone, the country has largely escaped it. Some warn that the accession of Turkey will let in hordes of Turks. Yet Turkish membership

▶ is many years off and, if it were agreed, would come with tight migration limits. A few Eurosceptics use the terrorist attacks in Brussels on March 22nd to claim that free movement of people lets terrorists into Britain (the government says they show how vital co-operation on security is).

The Remain campaigners are not above their own scaremongering. Some suggest that Brexit might result in the 2m-odd Britons settled in Spain and elsewhere in the EU being sent home. This is unlikely, though questions might be raised over access to health care. Remainers have warned that France might scrap the Le Touquet treaty that places the Anglo-French border in Calais, bringing squalid refugee camps to Dover instead. Some French politicians might indeed want to end this unpopular deal, but it is a bilateral one and not linked to Britain's EU membership.

The real argument should be over the effects of EU migration. It has certainly been bigger than expected. In 2003 one forecast said that up to 13,000 east Europeans a year would come; five times as many turned up. There are now about 3m EU migrants in Britain, the latest inrush from southern Europe. Yet over half of net immigration comes from outside the EU.

A post-Brexit Britain might not be able to stop EU migration anyway. If it wants to retain full access to the EU's single mar-



ket, it will probably be required to accept free movement of people, as Norway and Switzerland are (both have proportionately more EU migrants than Britain).

Most Brexiteers insist on tougher controls. They say heavy EU migration burdens taxpayers, drives up welfare spending, strains public services like health and education and aggravates the housing crisis. Some argue that migration steals jobs and reduces wages, especially for the lower paid. Those who favour some immigration

often prefer an Australian-style points system that would let Britain cherry-pick the best and brightest.

There are good answers to most of these claims. Several studies have found that EU migrants, unlike non-EU ones, are net fiscal contributors. Mr Cameron's benefit cuts are unlikely to deter them (indeed, more may now be lured by the new higher national living wage scheduled to take effect on April 1st). Migration adds to pressure on housing, but the real problem is planning constraints. Britain's employment rate is at a new high, so there is little sign of migrants taking natives' jobs.

As for Australian-style cherry-picking, Jonathan Portes of the National Institute of Economic and Social Research points out that Britain does a lot of this already (see chart). The share of the foreign-born in Britain with tertiary education is higher than in Australia or almost all EU countries, and it is far higher than among the native-born.

Rich countries need migration to thrive, not least to sustain their public services. A growing population can create problems, but a shrinking one is worse. The irony is that the surest way to reduce immigration to Britain is, as one migration adviser puts it, to wreck its economy, and leaving the EU is a quick way to do that. Brexiteers could inadvertently get what they want—but the country would be poorer for it.



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6. April 9th 2016

The economic consequences

Most estimates of lost income are small, but the risk of bigger losses is large

HE impact of leaving the European Union on Britain's economy may be the most heated issue of all as the referendum on June 23rd approaches. Many of those who are unsure how to vote say they will decide on the basis of whether learning the EU is likely to make them better or worse off. The arguments are hard to assess. Andrew Tyrie, the Tory MP who chairs the Commons Treasury select committee, which is inquiring into the costs and benefits of EU membership, says both sides in the debate "are prepared to set aside all qualifications and restraints in the wilder claims they make." He hopes his committee can do better, though it too is bitterly divided.

Mr Tyrie notes that, when it comes to Brexit, "the central problem is that there is no counterfactual." In October, for instance, a Bank of England study concluded that EU membership had boosted the British economy by making it more dynamic. That is hard to square with Brexiteers' claim that membership has been damaging. Yet the cause of the new dynamism could be something unrelated: perhaps, as Eurosceptics say, the Thatcherite reforms of the 1980s, lower taxes or less red tape.

The missing counterfactual is even more problematic in assessing the economic effects of Brexit. Nobody can be sure what access Britain will have to the single market, what its regulatory regime and migration rules will be, or how long any of these may take to negotiate. Several teams of economists have had a go at guessing. The table shows the conclusions of six of the most comprehensive studies. The wide range of GDP predictions demonstrates how uncertain the outcome is.

One thing both pro- and anti-EU voices can agree on is that the short-term impact of Brexit is likely to be negative. Uncertainty over future trade arrangements has already reduced confidence in sterling and investment could well be discouraged. The Bank of England calls Brexit the biggest risk to domestic financial stability. That Britain is running a record current-account deficit, which has to be financed by capital inflows, makes it all the more vulnerable.

The longer-term effects are more controversial, although most economists reckon that they too are likely to be negative. That

| Finger in the air | | |
|---|------|-------------------------------|
| | Date | on Britain's economy |
| Organisation | | Effect on GDP, % |
| Centre for Economic Policy Research | 2013 | -1.24 to -1.77 |
| Institute of Economic Affairs | 2014 | +1.10 to -2.60 |
| Open Europe | 2015 | +1.55 to -2.20 |
| Centre for Economic Performance, LSE | 2016 | -1.30 to -2.60 |
| PwC | 2016 | -3.00 to -5.50 in <i>2020</i> |
| Oxford Economics | 2016 | -0.10 to -3.90 |

is not least because it can take many years for an economy to recover forgone shortterm output (if it does). Broadly speaking, economists find five ways in which Brexit could affect future GDP.

Losses arising from lower trade are by far the biggest. Later this month the Centre for European Reform, a think-tank, will publish a revised version of its 2014 study on Brexit, based on the work of economists from Groningen University in the Netherlands. It concludes that Britain's trade with the EU has been 55% greater than it would have been without membership—and that

there have been no detectable losses from trade diverted from third countries towards the FII

Even if only some of these gains were at risk from Brexit, they would hugely outweigh the second effect, the economic benefit from cutting Britain's annual net contribution to the EU budget of some £8.5 billion (\$12 billion). The budget gain is also swamped by likely losses from the third factor, lower foreign investment. Brexiteers argue that this will be unaffected, but the evidence is that a large chunk of foreign investment, especially in financial services and cars, has come because of Britain's EU membership. Gains from a fourth possible factor, fewer onerous rules, are largely illusory. Analysis by the OECD, a rich-country club, finds that British labour and product markets are already among the least regulated of all its members.

The fifth consideration is migration. Were Britain to impose tighter controls on EU migrants post-Brexit, growth would depend on attracting from elsewhere the skills its economy needs. Yet it is politically unrealistic to believe that Britons who have just voted to leave the EU partly to curb uncontrolled migration from eastern Europe will want to welcome many more migrants from places like India and Africa.

The Treasury is due to produce its own assessment of EU membership later this month. It is likely to conclude that the economic effects of Brexit would be negative, and that the short-term risks to Britain's economy are substantial. Economics is accordingly the Remain campaign's strongest card—provided the campaigners manage to play it well. ■

7. April 16th 2016

A matter of business

Most firms want to stay in the European Union, but some are leery of saying so

HE business of business is business," Milton Friedman once said. Many companies and trade groups follow his dictum, steering well clear of politics. Yet as the official campaign for the June 23rd referendum on Britain's EU membership kicked off this week, more businesses were making their views known.

Vote Leave, which has just been designated as the official pro-Brexit campaign group, claims that business is evenly divided. Yet most polls by trade associations find big majorities for staying in the EU.

A survey by the Confederation of British Industry (CBI) found 80% of members for Remain, with only 5% for Leave. In response to claims that it represents only big companies, the CBI points out that it speaks for 190,000 members, mostly small and medium-sized enterprises, and that 71% of SMEs want to stay. The Institute of Directors and the British Chambers of Commerce, with memberships that have a higher share of SMEs than the CBI, find most in favour. Even a majority of the Federation of Small Businesses narrowly backs Remain.

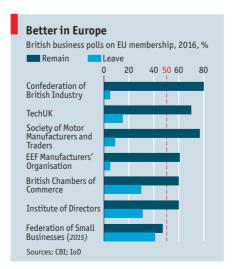


Specialist trade associations report similar results. TechUK, an IT group, finds 70% for staying in the EU. The EEF manufacturers' association has 61% (see chart). A survey this week by the UK arm of the International Chamber of Commerce found 86% of international businesses supporting Remain. Groups as diverse as Universities UK, the Food and Drink Federation and the aerospace and defence association also report large support for Remain.

This is not to deny that some businessmen favour Brexit. James Dyson of the eponymous manufacturing firm is one. Like Alan Halsall of Silver Cross, a pram maker, he believes EU rules hamper the export of his products. Many small firms think that, since they do not export at all, they should be exempt from Brussels rules. Yet as Paul Drechsler, president of the CBI, notes, 25 years of single-market integration have created a supply-chain network so dense as to make such compartmentalisation impossible.

A good example of a business that benefits from the EU is the British car industry. Mike Hawes, the chief executive of the Society of Motor Manufacturers and Traders (SMMT), says it was largely moribund in the 1980s and 1990s. But thanks to foreign ownership and investment attracted by a gateway into the EU single market, it has revived strongly. It accounts for 800,000 jobs and 12% of British exports (80% of its output goes abroad). Britain now produces more cars than France. Fully 77% of SMMT members favour Remain, not just because future investment depends on access to the single market but also to retain influence over the industry's regulation. Mr Hawes cites the case of an exemption that British lobbying secured from EU emission rules for low-volume niche producers like Lotus and McLaren.

It is a similar story for financial services. Mark Boleat, the policy director of the City of London Corporation, says his outfit has come out strongly for Remain in line with the views of the overwhelming majority of City firms. Like many businesses, they



complain about the burden of regulation, but Mr Boleat points out that much of this now comes not from the EU but from either domestic or global sources. He says that even hedge funds, several of whose richest bosses favour Brexit, have been unable to point to any benefits from leaving the EU.

Should business speak out more? Remain campaigners would like it to, as would the government. Mr Drechsler of the CBI says companies should be clear that it is not their job to tell people how to vote. But he says they would be negligent if they failed to spell out to customers, employees and suppliers the damage that Brexit will do to the economy and jobs. He does not want bosses to wake up on June 24th after a vote to leave feeling they had not done enough to spell out the risks.

Still, some business bosses are cautious. Airbus ran into heavy criticism when it wrote to all employees to warn them of the dangers of Brexit. Japanese firms in Britain are careful not to say explicitly that they might switch investment to continental Europe. Several supermarket groups refuse to talk publicly about Brexit for fear of alienating customers. The CBI itself is a favourite target of Brexiteers, who accuse it of being a Brussels puppet and wanting to join the euro. Yet for British businesses the Brexit referendum matters more than any general election. They must nerve themselves to stick their heads above the parapet if Remain is to win.



8. April 23rd 2016

The ins and the outs

Britain has the best of both worlds

T HAS been a busy week for Britain's Treasury. On April 18th its study of the costs and benefits of European Union membership concluded that Brexit could reduce GDP after 15 years by as much as 6.2%. George Osborne, the chancellor, called Brexiteers who claimed there would be no costs in leaving "economically illiterate". Yet his bigger concern over Britain and the EU is not economic: it is whether the euro zone might unfairly discriminate against non-euro countries like Britain.

Mr Osborne put this issue at the heart of the government's effort to renegotiate its EU membership. Since November 2014 the 19-member euro zone has in itself constituted a "qualified majority" that can, in theory, take decisions without consulting the nine non-euro countries. Before then, in January 2014, Mr Osborne warned that, if non-euro countries felt their interests were not protected, they would "have to choose between joining the euro, which the UK will not do, or leaving the EU".

At a Brussels summit in February, Mr Osborne's boss, David Cameron, won several concessions. One was recognition that the EU has more than one currency. Next was an undertaking that the euro zone would not damage the wider 28-strong single market—although in return non-euro countries promised not to obstruct deeper euro-zone integration. He also secured the right to appeal to a full EU summit against euro-zone decisions that Britain disliked. And he won acceptance that, within broadly agreed boundaries, the British could apply their own detailed rule book when regulating financial services.

Mr Cameron hailed this deal as giving Britain the "best of both worlds". It is in the single market but not the euro (and so liable for euro-zone bail-outs), just as it is in the EU but not the Schengen passport-free zone (with its refugee crisis). Many in Brussels reckon Britain frets too much about the euro zone ganging up on non-euro countries. The top official working for the euro group of finance ministers says that, far from forming a rapacious caucus eager to do down non-members, his political masters find it hard to agree on anything. One observer, Iain Begg of the London School of Economics, also argues that the British fear is more theoretical than real.

Yet the Treasury points to cases where British interests have been overlooked. The European Parliament imposed an EU-wide ban on excessive bankers' bonuses. Several euro-zone countries are trying (so far unsuccessfully) to impose a financial-transactions tax. The European Central Bank sought to stop the clearing and settlement of euro transactions in London, though the British successfully challenged this in court. Last summer euro-zone ministers used an EU-wide rescue fund to help Greece despite promising not to (later they agreed to cover any losses by Britain and other non-euro countries).

So British concerns over euro-zone caucusing may not be wholly hypothetical. Many on the continent resent the dominance of London as Europe's financial centre and would like to grab some of its business. They are also clear that they cannot allow Britain a veto over financial regulation, as they showed when they side-stepped an attempt in December 2011 by Mr Cameron to block a fiscal treaty unless he was given just such a veto. And they do not want to extend the "double majority" mechanism of the London-based European Banking Authority, whose decisions require the approval of majorities of both euro and non-euro countries.

Will Mr Cameron's deal safeguard British interests? Only time can tell, but there are reasons for moderate optimism. One is that the EU will have many non-euro countries for years to come. The Poles, Swedes, Danes, Hungarians and Czechs seem in no hurry to adopt the single currency. A second is that, for all the talk in Brussels of another leap forward in euro-zone integration with a euro-zone finance minister, a common budget and mutually backed Eurobonds, there is as yet no agreement on any of it. The Germans remain hostile to anything that could be seen to turn the monetary union into a "transfer union".

And third there are the February concessions, which will be written into the EU treaties. They should make it harder for the euro zone to dictate terms to non-euro countries, even if Britain feels increasingly uneasy as more join the euro. The paradox is that, although this may be the most important part of the renegotiation, it is the hardest to explain to voters—and so barely features in the referendum campaign.

9. April 30th 2016

How others see it

The EU would suffer from Brexit—which is why it may not be kind to Britain afterwards

OST of the Brexit debate has been about its effect on Britain. But a British departure would also have a profound impact on the European Union. And that would affect how others approach negotiations with a post-Brexit Britain.

For the EU, a vote for Brexit on June 23rd could hardly come at a worse time. The club is in trouble. The euro crisis is not over, with growth slow, youth unemployment high and Greece again in difficulties. The recent fall in the flows of refugees across the Mediterranean may prove temporary. Many leaders, including Germany's Angela Merkel, seem politically weakened.

The longer-term effects of Brexit would also be serious. The EU would lose much

prestige from the exit of one of its biggest members. Britain is one of the few EU countries with real diplomatic and military clout. Brexit would also upset the balance of power, leaving more naked both German hegemony and French weakness. And it would make the EU less outwardlooking. As the Centre for European Reform, a London-based think-tank, notes in a new report, a British departure would leave the EU "less liberal, more suspicious of science and more protectionist". That could hurt hopes of new trade deals, notably with America. Jan Techau of Carnegie Europe, a think-tank in Brussels, says Brexit would be bad for transatlantic relations, in which Britain is a key intermediary.

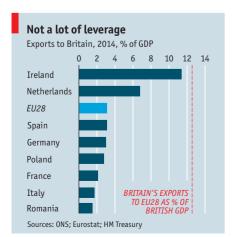
All this means other EU countries will see Brexit as a hostile act meriting a firm response. Diplomats avoid crude talk of punishment, but they also see a need to avert any risk that Brexit could encourage others to leave. Euroscepticism has grown in most countries and so have populist parties, many of which openly back Brexit. Marine Le Pen, leader of France's National Front, even plans to campaign for it in Britain.

The new deal that David Cameron won in February may have been dismissed at home as trivial (and it barely features in the referendum campaign). But in Brussels many saw it as giving in to a blackmailer threatening to walk out. Michael Emerson, a former Eurocrat now at the Centre for European Policy Studies, another Brussels think-tank, also stresses Europeans' aversion to Britain's cherry-picking the bits of the EU to which it deigns to belong.

To most Brussels hands, that means there can be no question of giving a post-Brexit Britain full access to the EU's single market while letting it escape the EU's rules and the free movement of people. As one diplomat puts it, the other countries simply have to show that Brexit doesn't work.

Brexiteers retort that, since the EU sells more to Britain than the other way round, it has a huge interest in a free-trade deal. German carmakers, it is said, would insist on one. Yet the bargaining clout of the EU is far stronger. For Britain, exports to the EU make up 12.6% of GDP, whereas for the EU, exports to Britain are only 3.1%. And for many countries, all of which would have to ratify a new trade deal, the ratio is smaller still (see chart). Take Romania: its exports to Britain are worth only 1.5% of GDP, and it may also be asked to accept curbs on migration if Britain leaves. Romania is threatening to veto an EU-Canada trade deal because of Canadian visa restrictions.

A final consideration for the EU is the need to show, post-Brexit, that the European project can still go forward. An obvious



way to do this would be to relaunch the euro zone's movement towards closer integration. In Brussels many predict a new Franco-German initiative after June 23rd, whichever way the vote goes. It may not get far as there is little agreement on what deeper union should entail. But it could still discomfort Mr Cameron, who likes to claim that the high-water mark of European integration has passed.

A Brexit vote would also come at a testing political time for Europe. Elections loom almost everywhere: in Spain three days after the referendum, in France, Germany and probably Italy next year. And in a final irony, Britain is due to take the rotating EU presidency in the second half of 2017—just when post-Brexit negotiations could be at their most intense.

10. May 7th 2016

City blues

The financial-services industry would be one of the biggest losers from Brexit

■ HE place with most at stake in the Brexit debate may be the City of London, Britain's financial hub. Although the European Union's single market in services is incomplete, it clearly works in wholesale financial services. Today London is more obviously the financial centre of both the EU and the euro zone than it was 20 years ago, inspiring much jealousy among potential rivals like Paris and Frankfurt. José Manuel Barroso, a former European Commission president, bluntly told a recent conference organised by UK in a Changing Europe, an academic network, that, post-Brexit, "London could no longer be the financial capital of Europe."

According to TheCityUK, a lobby group, almost 2.2m people work in financial and related services such as accounting and the law, two-thirds of them outside London. They produce nearly 12% of GDP, 11% of the country's tax take and a net trade surplus of £72 billion (\$104 billion). Financial services have taken a third of foreign direct investment in Britain since 2007, most of it coming from the EU. Some 250 foreign banks operate in London, and over 200 foreign law firms have offices across Britain.

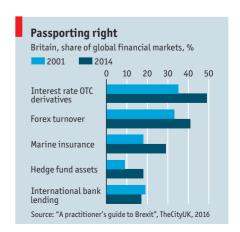
A Brexit study by PWC, an accounting firm, for TheCityUK concludes that gross value-added in financial services would fall by 5.7-9.5% by 2020 and employment by 70,000-100,000. The sector would grow

more slowly and some firms would relocate to other EU financial hubs. The main cause would be the loss of "passporting rights". These allow any British-based bank or investment firm to trade across Europe: without them, firms would have to set up separately capitalised subsidiaries inside the EU. A study by Frontier Economics for London First, another lobby group, also finds that total British trade would fall by £67 billion-92 billion a year.

Brexiteers dismiss all this as scaremongering. London was a financial centre, they say, long before Britain joined the EU. Indeed, membership has been damaging by imposing stupid rules. Gerard Lyons, economic adviser to the mayor of London, argues that Europe cannot replicate the City: the real competitors are New York, Singapore and Hong Kong, not Paris or Frankfurt. Brexiteers say their opponents also claimed 15 years ago that the City would suffer if Britain did not join the euro. No wonder, they conclude, that City opinion is divided, with many bankers and hedge-fund managers backing Brexit.

This last claim is wrong. Repeated surveys find that most current practitioners want to remain in the EU. It is hard to find a single bank in favour of Brexit. It is true that hedge-fund bosses like Crispin Odey and Paul Marshall are big contributors to Vote Leave, the main pro-Brexit campaign. But David Harding, founder of Winton Capital Management, is one of the biggest backers of Britain Stronger in Europe, the chief pro-Remain group, and he is not alone.

The case against EU red tape is also unconvincing, not least because the City has thrived inside the club (see chart) and the 2008 financial crash led to demands for more not less regulation. Brussels can be annoying, especially when it sets limits on bankers' bonuses. But most of today's regulations stem from international accords like the Basel rules on bank capital or domestic proposals in the Vickers report into bank structure. As an EU member, Britain has often improved clumsy draft regulations



coming from Brussels. Were it to leave, it would lose any influence over the EU's planned capital markets union.

As for Europe's ability to compete, Chris Cummings, chief executive of TheCityUK agrees that nowhere can challenge the City as a whole. But the risk is that chunks of the industry would migrate. Dublin and Luxembourg are strong in fund management, for instance. The most immediate threat is to clearing and settlement of euro trades, which the European Central Bank has already tried to relocate into the euro zone, only to be rebuffed by the European courts.

Were Britain to leave the EU, it would lose this judicial protection. The profits from clearing and settlement are crucially important to financial exchanges.

It is true that concerns about the City were rife when Britain refused to join the euro. But the loss of passporting rights matters far more than being out of the single currency. Fears over the City's future are one reason why sterling has been so wobbly this year. Some in the City reckon it could fall by another 20-30% post-Brexit—the betting on which may explain why a few hedge funds back the idea.

11. May 14th 2016

Security concerns

Is Britain safer in the European Union than outside it?

OST debate over Brexit has been about economics, trade and migration. But when David Cameron called the referendum in February he cited a new factor, asserting that membership of the European Union made Britain safer. This week the prime minister went further, hinting that Brexit might increase the risk of conflict—and adding that, every time Britain turned its back on Europe, it had come to regret it.

In the past 25 years the EU has developed its common foreign and security policy. Examples of joint action include a common response to Iran's nuclear ambitions and sanctions on Russia after it invaded Ukraine. Polls suggest that most voters support such co-operation. Sir Simon Fraser, a former head of the Foreign Office, believes that "Brexit would diminish Britain's role in the world." Some fear questions over its place on the UN Security Council, though Britain could veto any change.

Europe also has a role in security and intelligence co-operation. In March Sir Richard Dearlove, a former head of MI6, the foreign-intelligence service, argued that "the truth about Brexit from a national security perspective is that the cost to Britain would be low". He set off a huge debate. Theresa May, the home secretary, pointing to the European Arrest Warrant and access to intelligence databases, insisted that being in the EU made Britain "more secure from crime and terrorism." Pauline Neville-Jones, a former national security adviser, said Brexit would weaken border control and police co-operation.

Many of Sir Richard's old colleagues have

now weighed in. Lord Evans, a former boss of MI5, the security service, and John Sawers, another former head of MI6, wrote in the Sunday Times on May 8th that the EU "matters to our security" and that, by reducing data sharing, Brexit "could undermine our ability to protect ourselves". On May

11th Eliza Manningham-Buller, another former MI5 boss, warned that "if we isolate ourselves we would lose influence...and put ourselves in greater peril."

Brexiteers reject this on three grounds. On foreign and defence policy, they insist that NATO is what matters and the EU could undermine it. Second, they say that, for intelligence, the key group is the "Five Eyes" linking Britain, America, Canada, Australia and New Zealand; and that post-Brexit it would be easy to replicate co-operation with Europe. And third, they say the EU is damaging not just because some members are unreliable but because the European Court of Justice (ECJ) can rule in security cases. This, plus migration, makes the EU bad for Britain's safety.

On the first point, the EU has civilian tools that NATO finds useful. Brexit also raises the risk of the EU wastefully opening its own military headquarters, a move long resisted by Britain. As for Five Eyes, all the other members want Britain to stay in the EU, partly because it makes it easier to co-operate with European colleagues. Nor are the two groups mutually exclusive: in practice, the security services work with foreign agencies all over the world. Third, Lady Manningham-Buller is clear that the ECJ has no jurisdiction in security matters, which are a national prerogative. The judges who have stopped the extradition of terrorists, for example, have been British or >>



Spooked by Brexit, Mr Bond?

from the European Court of Human Rights. which is not part of the EU.

Post-Brexit, Britain would find it harder to keep close foreign-policy and security links with the EU, not least because it would no longer be in the room. There is a broader geopolitical point, too. Partly because its foreign-policy role has grown, the EU has become a key piece of the West's defence and security architecture. Brexit would weaken the EU-and so the West.

Mr Cameron may have exaggerated the risk of armed conflict in Europe. But the people keenest on Brexit are the West's enemies. That is why several former Pentagon and NATO bosses called this week for Britain to stay in the EU. Britons are unlikely to have security uppermost in their in mind on June 23rd. But Brexit could yet cause much collateral damage.

12. May 21st 2016

We plough the fields and scarper

Although agriculture could lose out, most farmers seem to back Brexit

GRICULTURE has long troubled Britain's relations with the European project. It was partly concerns for French farming that led Charles de Gaulle to veto British efforts to join in the 1960s. The excesses of the common agricultural policy (CAP), with its beef mountains and wine lakes, drove up Britain's budget contribution in the 1980s, before Margaret Thatcher won a rebate. But one corollary was that British farmers did well from membership. Even now, after several rounds of CAP reform, EU subsidies via direct farm payments make up 54% of British farmers' income. And the EU takes 62% of British agricultural exports.

One might thus expect farmers to back

staying in. In April the National Farmers Union came out in favour, citing a report into Brexit that it had commissioned from Wageningen University in the Netherlands. The report concluded that two plausible post-Brexit outcomes would mean higher food prices, but a third option of total trade liberalisation would lead to big price (and wage) cuts. The precise effect on farmers' incomes would depend on whether direct farm payments continued, which is unknowable. Despite this, two recent polls by Farmers Weekly have found big majorities (58% of all farmers and 62% of young ones) backing Brexit. Why?

One reason is that, like lots of older

rural voters, farmers are Eurosceptic and

Getting fleeced?

fretful about sovereignty and immigration (though, ironically, many rely on seasonal migrant workers at harvest time). More global competition, lower food prices and the relative strength of sterling have also made farmers' lives harder.

Reform of the CAP also continues, not usually to producers' benefit. Although agricultural spending takes 40% of the EU budget, that is down from nearly threequarters 30 years ago. Most price supports have gone, as have milk quotas. The British government is leading efforts to phase out direct farm payments in the next budget round. And more emphasis on greenery has meant a mass of environmental regulations on things like pesticide use and crop rotation that farmers find irksome.

They also complain loudly about DEFRA, the Whitehall department in charge, Many accuse it of adding extra rules to those from the EU. Its Rural Payments Agency (RPA) has been slow to pay out subsidies, thanks to computer glitches and other snafus. One Oxfordshire farmer says he has told the prime minister that both DEFRA and the RPA are not fit for purpose. Many farmers believe their more politically powerful European counterparts get better treatment.

Lastly, some pro-Brexit farmers take heart from the Leave campaign's promises to cut red tape and maintain or even increase farm subsidies. Yet promises to reduce regulation should be taken with a pinch of salt. The British government has been at the forefront of those calling for green rules and DEFRA has shown that home-grown regulation can be as burdensome as anything from

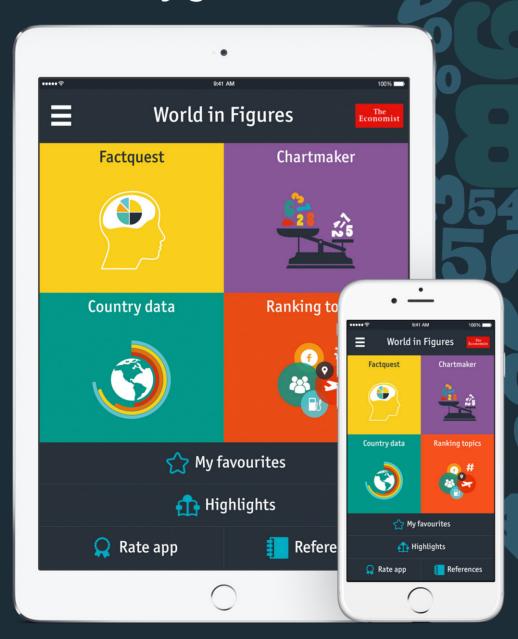
Promises of more money rely on the claim that leaving the EU will save Britain's EU budget payments of £350m (\$510m) a week. But when the rebate and EU spending in Britain is accounted for, the net payment is only £120m a week. Moreover, Brexiteers have promised help to many others who are worried about losing EU cash: universities, scientists and researchers, and regions like Cornwall, Wales or Scotland (agricultural policy is a devolved responsibility). And the official Leave campaign wants to divert EU budget payments to the National Health Service.

For farmers, as for other businesses, Brexit would bring uncertainty. They might do well (Norway and Switzerland, both non-EU members, subsidise their farmers even more lavishly). A fall in sterling could be helpful. But free-market Brexiteers might also try to scrap agricultural protection, as New Zealand did in the 1980s. As one farmer looking out over 5,000 acres of Wiltshire concludes: "We really need the French to fight our corner, and they won't help us outside the EU."



World in Figures

The world figured out









13. May 28th 2016

Yes, we have no straight bananas

Brexiteers carp at European Union red tape, but how much of it would they tear up?

VERYBODY complains about EU regulation. Myths abound over curvature of cucumbers, how many bananas are allowed in a bunch or whether children may blow up balloons. More legitimate gripes include rules limiting working time to 48 hours a week, enforcing parental leave or regulating vacuum-cleaner power. Brexiteers say much red tape is imposed against British wishes and hobbles small firms that do not trade with the EU. They promise liberation after a vote to leave.

Membership of the EU, especially its single market, brings with it many rules. Some are ill-judged, uncosted and not subject to cost-benefit analysis. The working-time directive was a needless intrusion into an issue better decided at national level. And regulation imposes costs. Open Europe, a London-based think-tank, using official figures, says the annual cost to the economy of the EU's 100 most expensive rules is £33 billion (\$49 billion) a year.

Yet regulation also brings benefits, put in this case by the government at £59 billion (surely an exaggeration). It predates EU membership: the first rules on cucumbers came in the 1960s, before Britain joined. Moreover, the EU single market works only

thanks to common rules. That is why in the 1980s Margaret Thatcher accepted more voting by majority (not unanimity) on single-market laws. Carolyn Fairbairn, directorgeneral of the Confederation of British Industry, says such rules should really be seen as standardisation, not regulation. More will be needed to extend the single market to areas like digital, energy and services. Brexiteers have often made fun of extensive rules on road haulage, only to realise that road hauliers find them helpful.

It is also misleading to claim EU rules are always imposed on an unwilling government. Analysis by the London School of Economics finds Britain siding with the majority in 87% of EU votes. On climate change and financial regulation, Britain has led the push for tougher action. When businesses complain about red tape, they even find that the government has added extra rules to "gold-plate" those from the EU. The costliest burdens are home-grown not EU-inspired, notably tight planning controls, the new living wage and the apprenticeship levy. By international standards, Britain remains lightly regulated. According to the OECD think-tank, it has the least-regulated labour market and the second least-regulated product market in Europe. It also comes high in the World Bank's rankings for ease of doing business.

Despite what Brexiteers promise, it is not clear that a vote to leave would mean a bonfire of EU regulations. Were Britain to seek close links to the single market from outside, like Norway and Switzerland, it would have to observe most EU rules without having a say in them (Norway applies 93 of the 100 most expensive EU regulations). Even if it left the single market and traded from outside, exporters to the EU would have to comply with most EU regulations-and that includes small firms that supply big exporters. If EU talks with America on a transatlantic free-trade deal succeed, most of the world is likely to have to adopt their ioint standards.

In short, even if Britain left the EU, it would not find it easy to scrap many of its regulations. Open Europe puts the maximum feasible saving at around £12.8 billion. And Raoul Ruparel, its director, concedes it would be politically challenging to realise that much. Most of the gains would come from ending EU climate-change, financial-services and employment rules. Yet Britain has long supported the first two; and it seems fanciful to expect workers and unions to accept a dilution of employment rights that business is not even calling for.

One more point is lost in this debate: that the EU is proposing far fewer rules now. The European Commission's better regulation agenda limits new regulations and even withdraws existing ones. Most EU members want less red tape. It is ironic that Britain should consider Brexit just when the EU has come round to a more competitive, less intrusive approach.

14. June 4th 2016

If it were done

There is some dispute over the mechanics of how to leave the EU

HAT would happen after a vote for Brexit on June 23rd? The short answer is that nobody can be sure, because there is no precedent. Greenland voted to leave the club in 1982, but it is part of Denmark, has only 50,000 people and fishing was the only big issue. Even so it took three years to establish a new relationship.

If there is a Brexit vote, David Cameron has promised that Britain would "straightaway" invoke Article 50 of the Lisbon treaty, which sets a two-year timetable to agree the terms of departure. The other 27 EU countries would decide (by majority vote, without British participation) what offer to make. There would almost certainly be parallel negotiations on a new trade deal, which would need unanimous approval by all 27 countries and their national parliaments. The European Parliament would have to endorse both deals. If no agreement is struck within two years, the timetable can be extended, but only by unanimity—if that is not done, Britain would have to leave with no deal at all.

If this seems designed to give more bargaining power to the EU than to a post-Brexit Britain, that was part of the intention of Article 50. Worse, the EU in its current fragile state would not wish to be generous, for fear that others might follow. The argument that the big British trade deficit makes the EU more dependent on Britain than the other way round might carry some weight with big German or Dutch exporters, but not with countries like Romania or Slovenia that export little to Britain.

Given all this, some Brexiteers have been searching for an alternative to the immediate use of Article 50. One idea is to put it off and negotiate a new relationship informally. Most diplomats reckon the EU would simply refuse to negotiate until Britain invokes Article 50. Another proposal is not to use the Article at all but instead repeal the 1972 European Communities Act that gives effect to EU laws, or pass a new act taking Britain out of the jurisdiction of the European Court of Justice. But unilateral action would put Britain in breach of European and international law. As Alan Renwick at the UCL constitution unit adds, it would not be conducive to a friendly

climate for further negotiations.

The fact is that Article 50 is the only legal way to leave the EU. It might not have to be invoked instantly, but Britons who had just voted to leave would expect it to be done quickly. And, once invoked, the two-year clock starts ticking. So some Brexiteers have raised another possibility: that a vote for Brexit could produce a new offer of better membership terms, including the ending of free movement of people, that could lead to a second referendum. Many point to Denmark and Ireland, which each had to vote twice before ratifying EU treaties.

Mr Cameron has ruled out a second ref-

erendum. Yet nothing in Brussels is wholly predictable, EU lawyers can be versatile and Mr Cameron might no longer be prime minister. On the face of it, an invocation of Article 50 cannot be withdrawn. But a political event such as a new government could change that. Even so, European politics militates strongly against a new deal. A Brexit vote would mean the withdrawal of the reforms to the EU negotiated by Mr Cameron in February. And other EU leaders are unlikely to offer a better deal to a new Eurosceptic leader for fear of seeming to give in to blackmail, especially since several face tight elections next year.

How long might withdrawal take? Trade negotiations are increasingly complex and time-consuming. The EU/Canada deal, favoured as a model by some, has taken seven years and still not been ratified. The white paper on withdrawal says a vote to leave "would be the start, not the end, of a process" and suggests the process could take up to ten years. In a sour post-Brexit atmosphere, those ten years would feel long and painful for everybody—but the pain is likely to be worse for Britain.



Greenland did it

15. June 4th 2016

Tug of war

Brexit could lead to a second Scottish independence referendum. But the place to fret about most is Northern Ireland

T IS ironic that Brexiteers who yearn for British independence from the European Union are often fervently against any nation's independence from the United Kingdom. Yet Brexit would have big repercussions for Scotland and Northern Ireland, and to some extent Wales. In all three the debate has been more subdued than in England, perhaps because majorities of voters look likely to back the Remain side (unlike the 1975 referendum, when they were all less keen than England on Europe). But this means that Brexit, were it to happen, would be imposed by English voters against the wishes of many along the Celtic fringe.

It would certainly rile the Scots, who see Brussels as a sort of alternative power centre to London. A recent debate in the Scottish parliament found all five main parties there backing Remain. Opinion polls suggest that as many as 75% of Scottish voters might agree. Remainers have tried to use the Scottish card to strengthen their hand in England by warning that Brexit would trigger a second independence referendum which (despite losing the first one in 2014 by 55-45%) a resurgent Scottish Nationalist Party (SNP) might win.

Nicola Sturgeon, the SNP leader and first minister of Scotland, has declared Brexit would be a "material change" that could lead to unstoppable demands for another referendum. Yet there are reasons to doubt it would happen soon. The SNP remains dominant in Scotland, after sweeping 56 of the 59 Scottish seats at Westminster in the 2015 general election. But a month ago it lost its overall majority in the Scottish parliament, when the Conservatives leapt into second place. And even if she were able to call a second referendum, Ms Sturgeon cannot risk it unless she is certain of winning. The example of Quebec suggests that two lost votes can sink hopes of independence for decades.

Moreover, the uncertainties that defeated independence in 2014 remain. Oil prices are half as high as then, so an independent Scotland would face even bigger economic and fiscal difficulties. After Brexit, the EU might be more welcoming to a Scotland seeking membership, but it would still object to its keeping the pound instead of adopting the euro. And if a post-Brexit United Kingdom ended free movement of people from the EU, that might mean erecting a border between north and south. England is by far Scotland's largest trading partner. Any border (or customs) controls along Hadrian's Wall could be very damaging. Such considerations will surely lead Ms Sturgeon to think hard before pressing for a second independence referendum. She certainly will not move fast.

In contrast, Brexit would create immediate headaches for Northern Ireland, starting

with the economy. Farming matters more in Northern Ireland than on the mainland, and it depends more on EU subsidies. Links to Ireland are crucial: it takes 34% of Northern Irish exports. Brussels has provided massive support to Northern Ireland since the Good Friday Agreement of 1998. Many in Belfast are sceptical of Leavers' promises to make up for any money lost by Brexit. Claire Hanna, a member of the Social Democratic and Labour Party in the assembly, points out that, unlike Britain overall, Northern Ireland is a substantial net beneficiary from the EU budget.

Ireland is the EU country most worried about Brexit. Irish ministers regularly state their opposition. Relations between the two nations are better than at any time in their history, and economic links have become closer. Travel and trade across the border are easier than ever. Britain is Ireland's biggest export market, and Britain exports more to Ireland than to China, India and Brazil combined. Dublin to London is the world's second-busiest international air route (after Hong Kong to Taipei).

Don't shake it all about

Leavers say there is no reason why any of this should be affected by Brexit. Trade would continue. The common travel area between north and south began in 1922, not 1973. The Good Friday Agreement and the Northern Irish peace process did not rely on the EU. Most Northern Irish voters, especially nationalists who want a united Ireland, back Remain, though Arlene Foster, leader of the Democratic Unionists and first minister, supports Leave as, more vocally, does the secretary of state for Northern Ireland, Theresa Villiers.

Yet many in Belfast and Dublin find this attitude irresponsible. The common travel area worked only when both countries were either out of or in the European proiect, not when one was in and the other out. If a post-Brexit Britain restricted free movement or left the EU's single market, there would be consequences for its only land border with another EU country, the 300-mile (480km) line dividing Northern Ireland from Ireland, Britain and Ireland might still not want to restore a hard border with customs and passport checks, but, as Cathy Gormley-Heenan of the University of Ulster points out, the other 26 EU countries would also have a say, because it would be their border, too.

Nationalists in the north have already said that, if Britain left the EU, they would demand a referendum to redraw the border with the south. Memories of a hard border are unhappy. Even the British army found smuggling hard to stop; post-Brexit, that might include people-trafficking. Any suggestion of imposing passport controls



on travellers from Northern Ireland to mainland Britain in order to prevent a back door for Europeans into the UK would be anathema to unionists in the north. But the biggest concern over Brexit concerns the peace process itself.

Edward Burke at the University of Portsmouth says it is wrong to claim the EU played no role in peace in Northern Ireland. The Good Friday Agreement of 1998 relied heavily on Britain and Ireland both being members and signatories to the European Convention on Human Rights (which some Brexiteers want to leave). But even more important was the psychological factor. As Ms Gormley-Heenan puts it, the EU gave cover to both nationalists and unionists to accept a compromise that fell short of unification but gave Ireland, via Brussels, a disguised say in the province. Would a post-Brexit Britain concede a bigger role to Dublin instead?

That does not mean Brexit would bring a return to the troubled years of violence.

Yet the situation in the province remains tense, as west Belfast's intimidating "peace walls" between such places as the (Protestant) Shankill and (Catholic) Ardoyne estates show. Brexit could trigger a backlash from nationalists who, as in Scotland, have become strong supporters of the EU as a counterweight to London.

Destabilising Northern Ireland would be a high price to pay for Brexit. But even if Remain won, doubts over the union's future would persist. A new House of Lords report into the union argues that today's constitutional settlement is unstable, and criticises the government for having no strategy for the future. The ultimate irony, says John Curtice of Strathclyde University, would be if, in an extremely tight vote, Britain ended up remaining in the EU only because nationalists in Northern Ireland. Scotland and Wales outvoted the English. That would surely rekindle English nationalism in virulent form, creating the biggest threat of all to the United Kingdom.

tice and home affairs (see table). Partly as a result, it has been hostile to anything that smacks of first- and second-class memberships. Its worry focuses on the single currency, a key subgroup of the wider EU. As more countries join (there are now 19 in the euro and only nine out), the British have resisted efforts to formalise this division, objecting to any plans to set up new eurozone institutions or to give legal status to meetings of euro finance ministers or heads of government.

Yet the present government has also subtly shifted its position. As one former minister puts it, the old policy was to drive in the fast lane but as slowly as possible, holding everybody else back. Now the government is happy to pull over and let the others accelerate away, especially if that is deemed necessary to shore up the euro. This explains why, in his February renegotiation with the EU, David Cameron promised not to block future treaty changes that euro-zone countries might want to make for the single currency.

In exchange the prime minister won two concessions. The first is a formal recognition that the goal of ever closer union does not apply to every country. The second is a legally binding mechanism to allow nations that are not in the euro to challenge decisions by the euro group (which now makes up on its own a big enough majority to pass EU legislation) that they judge to be against their interests, if necessary by taking the issue to a full EU summit.

These concessions may seem esoteric, but Charles Grant of the Centre for European Reform, a think-tank in London, thinks they are important—and not just for Britain. What the EU has conceded is, in effect, that its members are now moving not just at different speeds but towards different ultimate destinations. This is why true believers in a federal Europe hated the deal given to Mr Cameron. But some other non-euro countries, like Sweden, Poland and Hungary, liked it. Indeed, if Brexit prevails on June 23rd, they may try to secure the same deal for themselves. In the EU, it seems, variable geometry is here to stay.

16. June 11th 2016

The charms of variable geometry

A multispeed Europe suits Britain-and others

HE original idea of the European Union was that all members should move at the same speed towards the goal of "ever closer union". But as the club expanded, it became clear that not everybody either wanted or would be able to proceed as quickly as their fellows. This led to a rash of plans to allow those who wanted to go faster not to be held back by the slowest.

The labels for these ideas have differed substantially. In 1994 two German Christian Democrats (one of them the present finance minister, Wolfgang Schaüble) suggested a "hard core" of the original six (minus Italy) that would integrate further and faster than the laggards. Jacques Chirac, France's president, spoke of pioneer groups. Others floated the notion of a Europe of flexibility, concentric circles or moving at two speeds. Britain preferred to talk of variable geometry, to signify different groupings within the same broad club. It may have chosen to opt out of the single currency, but it was more serious than others about security and foreign policy.

The 1997 Amsterdam treaty set up a system of "enhanced co-operation", whereby

a minimum number of countries (now fixed at nine of the 28) may adopt common policies so long as they remain open to new members and do not discriminate inside the single market. Yet in practice it has barely been used. A divorce reform and the European patent are rare examples. But the latest attempt by a group of euro-zone countries to agree to impose a financial transactions tax is close to collapse.

Britain has more opt-outs than any other country—from the Schengen passport-free zone, the euro and most EU policies in jus-

Interlocking interlocutors Relationship of European nations to European organisations Euro currency Schengen visa Britain Ireland Cyprus Turkey free travel Denmark Austria Belgium **Estonia** Finland Switzerland European Union France Greece Iceland Germany **Italy** European Economic Area Latvia Lithuania Luxembourg Malta Liechtenstein Netherlands Portugal Slovakia Slovenia Norway Justice and Spain Home Affairs opt outs Czech Republic Hungary Poland Sweden Italics = countries Bulgaria Croatia Romania not in NATO Source: HM Government

17. June 11th 2016

Beyond the fringe

Brexiteers are deliberately vague about the alternatives to European Union membership. That is because most models, such as Iceland's, are unsatisfactory

S THE referendum on June 23rd draws near, the campaign is becoming increasingly bitter. David Cameron has accused fellow Tories like Michael Gove, the justice secretary, and Boris Johnson, the former mayor of London, of "resorting to total untruths". The Brexiteers retort that the prime minister is panicking after polls put the Leave side narrowly ahead.

The economy is still the Leavers' weakest point. They are especially vulnerable to the charge of not setting out a preferred alternative trading relationship with the EU. Mr Gove has talked airily of a free-trade area from Iceland to Turkey, implying that a post-Brexit Britain would automatically be in it. Yet this is overly simplistic. The EU's single market is far deeper than a free-trade area, and most trade deals with the EU are incomplete and come with costs.

The Leave campaign's reticence may seem odd, as there are obvious examples of European countries outside the EU. Iceland, Liechtenstein and Norway are in the European Economic Area (EEA). This gives them access to the single market, although exports are subject to checks for rules of origin that Open Europe, a think-tank, says would, if applied to Britain, cost it almost 1% of GDP. Switzerland has two bilateral deals with the EU that achieve broadly the same result (though, crucially, they do not include most financial services). These four countries are richer and have lower unemployment than the EU. If they can have the heaven of free trade without the hell of EU membership, why can't Britain?

Iceland may help offer an answer. The reason it has stood aside from the EU is fish, which still make up one-third of exports (though tourism has just overtaken it in its share of GDP). Icelanders know that the EU's common fisheries policy was a disaster, whereas they have managed their fish stocks well. Moreover, their highly protected farmers do not want European competition. The solution is the EEA, which excludes fisheries and farming but allows them to sell freely to the European market.

Even so, after its banking meltdown in 2008, Iceland applied to join the EU, because it needed financial stability. Many Icelanders wanted to dump the unreliable

krona for the euro. But the euro crisis and a change of government scuppered the idea. Iceland is no longer formally a candidate. Lilja Alfredsdottir, the foreign minister, says the country has recovered from its financial crash and is now happy to remain in the EEA. Indeed, she argues that it has done better than euro-crisis countries because it was able to devalue and kept greater control over the policy response than, say, Greece or Ireland. By retaining precious sovereignty, she says, Iceland has the best of both worlds.

Yet many Icelanders disagree, and not just because it was really the IMF that dictated policy in 2008-09, as it did for the euro zone. Politicians like Benedikt Johannesson, who has just founded a new political party, are calling for a referendum on the resumption of EU membership talks. Critics highlight three other awkward facts about the EEA. First, its members (and Switzerland) are obliged to accept free movement of people-indeed, unlike Britain, all are in the Schengen passport-free travel zone. Second, all have to make large payments into the EU budget: in Norway's case, some 80-90% what Britain pays per head, in Iceland's only slightly less and in Switzerland's about half as much.

Third and most contentious, EEA members (and Switzerland) must observe almost all the EU's rules and regulations if they are to keep access to the single market. Norway implements almost 75% of EU legislation, despite having no say in any of it. A big Norwegian report in 2012 concluded mildly that "this raises democratic problems." Baldur Thorhallsson, a political scientist at the University of Iceland, is more emphatic: he says EEA countries suffer a double democratic deficit, part arising from the EU's own failings, the rest from the fact that they are not even at the table to discuss legislative proposals.

Ms Lilja Alfredsdottir responds that a small country like Iceland would have little influence even if it were in the EU. But Olafur Stephensen of the Icelandic Federation of Trade says this is not the real point. What EEA countries lack, he says, is detailed knowledge of what is going on as well as contacts with the Brussels institutions and with other EU countries. This works to their

disadvantage. Businesses in Iceland often criticise the government for its tardiness in implementing EU rules it has only just heard about, which can create problems for sellers into the single market.

What about the ability of EEA countries and Switzerland to strike trade deals with other countries? Brexiteers point to deals that Iceland and Switzerland (but not the EU) have managed to do with China. Yet these are shallow and one-sided. Switzerland has promised to cut tariffs on Chinese goods immediately, while China has promised to reciprocate only over the next 5-15 years. European countries outside the EU will also be excluded from the EU-Canada free-trade agreement, and from a putative Transatlantic Trade and Investment Partnership with America.

If these countries offer a poor model for Brexiteers, are others better? Turkey is in a customs union with the EU, but only for some goods, and not for services; it, too, falls outside EU trade deals with other countries. Balkan countries (Mr Gove has cited Albania) have association agreements that give access to the single market, but these are part of the process of accession, and they too exclude services. A Canadianstyle free-trade deal is more promising as it excludes free movement of labour, EU rules or payments into the EU budget. But it does not include all goods (car exports are subject to tariffs, for example), nor does it include financial services.

So Brexiteers may hope instead for a bespoke deal for Britain that gives access to the single market without EU rules, free movement of people or budget contributions. But this is a delusion. The EU cannot be generous to a post-Brexit Britain for fear that others (including the EEA) might demand the same. As evidence, consider what happened when the Swiss voted in early 2014 to restrict migration from the EU. The EU has refused even to discuss it: if the Swiss impose restrictions, they will lose access to the single market immediately.

Finally, some Brexiteers suggest giving up the single market and falling back on World Trade Organisation rules, and unilaterally abolishing tariffs. Yet as the WTO's director-general says, this is not a simple or cost-free option. It would mean tariffs on British exports to the EU, and no direct access for financial services. It would require Britain to renegotiate access to the 53 countries that have free-trade deals with the EU. And farmers, manufacturers and others would fight unilateral scrapping of tariffs, which would also mean a loss of leverage to open other markets.

It is hard not to conclude that, even if EU membership has unsatisfactory aspects, it beats all plausible alternatives. No wonder the markets are nervous about the result.

The **Economist**

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