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The EU referendum vote on 23 June 2016 represents the biggest political decision British voters will make in their lifetime. The vote is happening at a time of deep concern over the democratic deficit in the EU, amidst the Eurozone crisis and a threat of Greece exiting the Eurozone or defaulting on its debts. Will the Eurozone break up or will it survive? Will it survive but become smaller or will the Eurozone become more integrated? What the Eurozone urgently needs is a recovering world economy, but it is unlikely to get it anytime soon. The slowing Chinese and emerging economies along with the continuing problems in the Eurozone with the exception of Germany are a concern. Instead the global economy resembles the Titanic without lifeboats, threatened by negative interest rates, quantitative easing and high global debt ratios combined with the migrant crisis and a questionable refugees swap deal between the EU and Turkey. The agreement with Turkey will also have an impact on the UK referendum debate. In comparison with the four president's report in 2012, the five president's 2015 report is less ambitious with regards to the development of European Monetary Union. Any substantive reform will have to wait until after the French presidential and German federal elections in 2017.

The long-standing discord over Europe within the Conservative party is going back to the days of Margaret Thatcher. More recently it has led to the rise of the UK Independence Party (UKIP). The level of knowledge about the EU in Britain is extremely low. In comparative terms, the UK scores worse than other EU member states. In May 2015, around 1,000 British people were asked three basic questions about the EU: 84% could get at least one answer right. This may not sound too bad, except that only one other member state did worse. A mere 27% of British people got all three answers right – placing the UK second from last again.

Not, of course, that a lack of knowledge is confined to the general public. A recent survey of UK MPs also highlighted their ignorance about the EU. When asked which country held the presidency

of the Council of the European Union, 61% of respondents admitted they did not know (it was Luxembourg at the time).

It is clear British society suffers from an identity crisis not unlike those that have hit other western countries in the wake of globalisation and the 2008 financial crisis. Fragmentation is spreading everywhere as nations become more inward-looking and worried about how the world is changing.

Another complication is political: the rise of nationalism in Scotland and the effect of Brexit on the survival of the United Kingdom. In 2014, Scotland voted in its own referendum to remain in the UK; but the nationalists won almost all of Scotland's seats in the general election eight months later. With Scottish opinion much more pro-European than in England, many believe that Brexit would lead to another referendum on independence. Prime Minister David Cameron could be remembered as the prime minister who helped break up the UK (and possibly Europe). How did the British relationship with Europe develop over the last 70 years, following the end of the Second World War?

## The phase of scepticism 1945–1975

UK scepticism is not a recent phenomenon. History shows that three spheres of interest originally governed the British official attitude. The UK's relationship to the United States, the Commonwealth and then Europe. Europe became more important to the UK as became more successful economically and to lesser extent politically.

Key dates include:

- 1957: The EEC (The Treaty of Rome)
- 1961 and 1967: British applications for EEC membership
- 1963 and 1967: French veto against British membership
- 1971: Third British application for EC membership

1973: Britain becomes a member of the EC under Prime Minister Edward Heath, arguably the most pro-European British leader

1974: Harold Wilson's Labour party defeated Edward Heath's Conservatives. Labour promised that it would give the British people the final say on EEC membership, which would be binding on the Government – through the ballot box – on whether the UK accept the terms and stay in or reject the terms and come out.

1975: In the referendum Britain votes in favour of continued membership (66% voter turnout, 2/3 said yes)

### Britain: The Reluctant European

Britain became the Reluctant European under Margaret Thatcher (1979–1990) who was known for her confrontational style, she negotiated a budget rebate for Britain. She was in favour of enlargement, but resisted closer European integration as well as the exchange rate mechanism (ERM). Thatcher wanted floating exchange rates instead. Britain became a member of the ERM in 1990, against Margaret Thatcher's wishes. A month after Britain had joined the ERM, Margaret Thatcher had to resign as prime minister. Successor John Major (1990–1997) was more pro-European (in style at least). He represented the British view of widening rather than deepening European integration.

Under Major in December 1991 the Maastricht Treaty was signed. On 16 September 1992 »Black Wednesday« which saw the UK exit from the Exchange Rate Mechanism. This event is not only deeply engrained in the memory of older politicians like then-Finance Minister Norman Lamont, but also among the younger ones like Prime Minister Cameron who was a special adviser to the Finance Minister.

The on-going recession and a split within the Conservative Party concerning the EU dominated UK politics before the 1997 general election which the Conservatives lost.

Prime Minister Tony Blair (1997–2007), New Labour, had a more pro-European stance. Blair was keen to play a leading, constructive role in Europe. He and New Labour were less sceptical towards the EU. But declining popularity due to the Iraq war weakened his premiership. Finance minister Gordon Brown, who later succeeded Blair as Prime Minister (2007-2010) was rather lukewarm regarding the EU.

David Cameron (2010 – 15) was elected in a coalition government with the pro-European Liberal Democrats until the Conservative party won a majority in May 2015. Cameron duly submitted his requests for renegotiation to his European partners in November 2015, and by February 2016 an agreement was reached at the European Council under the four headings of Cameron's requests.

1. Position of non-Eurozone member states. Discrimination between Euro and non-Euro economic actors prohibited.

2. Competitiveness. Better regulation, lowering of administrative burdens.

3. Social benefits and free movement of workers. Safeguard mechanism, restricting non-contributory in-work benefits for four years. Member states control over benefits for non-active EU migrants.

4. Sovereignty. Ever-closer union of peoples not a legal basis for extending EU competences. All member states do not have to aim at a common destination, with recognition that the UK does not want further political integration. Role of national parliaments enhanced with a new 'red card' mechanism (55% of vote trigger).

### Life after Brexit: What are the UK's options outside the European Union?

It is highly uncertain what the UK's future would look like outside the EU, which makes Brexit a leap into the unknown. After Brexit, the EU would continue to be the world's largest market and the UK's biggest trading partner. A key question is what would happen to the three million EU citizens living in the UK and the two million UK citizens living in the EU under a Brexit scenario? There are economic benefits from European integration, but obtaining these benefits comes at the political cost of giving up some sovereignty. Inside or outside the EU, this trade-off is inescapable. Britain has a number of options to consider if it was to come to Brexit.

One option is to join the European Economic Area (Norway model). This would minimise the trade costs of Brexit, but it would mean paying about 83% of what the UK is currently contributing to the EU. It would also require keeping current EU regulations (without having a seat at the table when the rules are decided). Another option is negotiating bilateral deals with the EU (Switzerland model). Switzerland still faces regulation without representation and pays about 40% as much as the UK to be part of the single market in goods. But the Swiss have no agreement with the EU on free trade in the services industry, an area where the UK is a major exporter.

A further option is going it alone as a member of the World Trade Organization (WTO). This would give the UK more sovereignty at the price of less trade and a bigger fall in income, even if the UK were to abolish tariffs completely.

Brexit would allow the UK to negotiate its own trade deals with non-EU countries. But as a medium size country, the UK would have less bargaining power than the EU. Canada's trade deals with the United States show that losing this bargaining power could be costly for the UK. To make an informed decision on the merits of leaving the EU, voters need

to know more about what the UK government would do following Brexit.

There are alternative post-Brexit future scenarios for UK-EU relations with varying economic and political consequences. It starts with the alternative that maximises economic integration between the UK and the EU and then moves to options with successively lower degrees of integration.

The EU has made clear to non-members such as Norway and Switzerland that they can have full access to the single market only if they accept most of its rules, including the free movement of people, and contribute to the EU budget. In other words, a Britain outside the Union would gain little in terms of »sovereignty«; on the contrary, it would lose its vote and influence over the terms of its participation in the single market. Meanwhile, rival financial centres such as Paris and Frankfurt would seize the chance to establish rules that would help them win back business from London.

#### Four things we know about EU referendum campaigns

**1. Referendum outcomes are hard to predict.** Current opinion polls do not allow us to project the outcome. Referendum voting is less settled than voting behaviour in general elections. Party identification matters less, campaign effects matter more. Of the 54 EU referendums: 12 went against the position of the government. The referendum campaign will update public information about Britain in the EU.

**2. Turnout matters.** EU referendums have been won or lost depending on the ability of the two camps to mobilise. Strong mobilisation on both sides is needed. It is unclear whether the »remain« or »leave« side will benefit from high turnout.

**3. Priming Effects.** Voters think about the question on the ballot in terms of what is at the forefront of their minds on voting day. The »Leave« camp will benefit from the high salience of the immigration issue. The »Remain« camp will benefit from positive economic outlook.

**4. Referendum.** This referendum is a high risk strategy, always at the mercy of events, offering either a modest upside or a catastrophic downside. Even if this referendum does not trigger Brexit, it may not provide closure. There is a ticking »neverendum« bomb: A Treaty change transferring power from the UK to the EU institutions will require another referendum.

#### What are actual mechanics of leaving?

The UK would trigger Article 50 of the EU Treaty shortly after a vote to leave. That would set the clock ticking for a withdrawal agreement to be reached within two years, or

else the UK would revert to the default trade arrangement with the EU governed by WTO rules.

By unanimity, two years consultation can be extended. A huge body of national law will need to be revised. The negotiations with the EU will have to bring decisions on what »out« actually implies in terms of trade relations.

#### What does UK Brexit mean for Germany?

Without the UK, EU decision-making may become slightly simpler, particularly in areas where unanimity is required such as most taxes and social security. This would not necessarily be a net positive, however, if the decisions taken more swiftly and easily without the UK as an EU member were significantly worse than those taken with difficulty and significant delays with the UK as an EU member. The geopolitical consequences of Brexit might not appear immediately but both the UK and the EU will be weakened.

Clearly, the weight of the »market-friendly/liberal« block in the EU (whose current core members include the UK, the Netherlands, Sweden, Denmark, and Estonia) would decline, potentially making the EU less market-friendly. The EU budget would also have to do without UK financial contributions.

But the real political risk is that Brexit would set a new and awkward precedent. It could trigger chain reactions, such as a backlash against any notion of »ever closer union«, even where this makes obvious sense, as in the areas of defense, foreign policy, defending the external boundaries of the EU, and certain aspects of environmental policy. Brexit could also encourage national exit movements elsewhere.

The Czech Republic, Hungary, Poland and Slovakia have been critical of Germany's migrant policy. Voters in Spain, Portugal, Greece and Ireland have recently also supported political parties of more radical options that have gained support as voters turn away from the old political establishment.

Although a British withdrawal from the EU wouldn't turn Germany into a hegemon, it could become isolated. It could increase the perception of German dominance and with it the pressure to form coalitions to counterbalance German power. Paradoxically, therefore, Germany could actually become weaker – that is, less able to get what it wants – in an EU without the UK. Meanwhile, expectations of Germany would probably increase further.