



OMFIF series on
UK EU referendum



Question of judgement

Opinion from around the world
on the EU referendum
February-June 2016

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The publication brings together 110 articles exploring all sides of the referendum campaign from the UK, continental Europe and the rest of the world between 29 February and 23 June. The article series began and ended with contributions from Phillip Middleton, Deputy Chairman of the OMFIF Advisory Board.

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The die is cast

Referendum has changed much, settled nothing

Philip Middleton

The moment of decision is upon us after a 100-day campaign characterised by courtesy, insight, and informed argument.

There has been sadness, anger, optimism, and inspiration.

We have heard from fervent federalists urging the British people not to turn their backs on the European dream of peace, prosperity and democracy. We have thrilled to passionate patriots urging the UK to reclaim its sovereignty. Debate has been joined by politicians, central bankers, academics, economists, businesspeople and journalists: by proponents of all sides and none.

Yes, the OMFIF 100-contribution referendum series has been a wonderful enterprise: informative, engaging and the model of an outstanding debate. We thank all participants.

Back in the real world, we have reached the end of a campaign which has been rancorous, mendacious, and vituperative on all sides.

The Remain campaign has unleashed 'Project Fear', rounding up politicians, business representatives and international bureaucrats to prophesy economic and diplomatic catastrophe should the British electorate dare upset the Brussels appletart.

The relentless barrage has probably been counterproductive. It has reinforced a strong anti-establishment feeling in an electorate who suspect vested interests lie behind many supposedly expert opinions.

The case for Remain has displayed a general lack of positive reasons for remaining in the European Union. It seems we are all eurosceptics now. But fear of a potentially disastrous leap in the dark is gnawing at the vitals of the electorate.

The Leave side has offered an ill-defined vision of a resurgent UK liberated from the shackles of Brussels amid dire warnings of an imminent flood of undesirable immigrants. It has signally failed to agree upon, still less communicate, a vision of what a post-EU UK might look like, still less how we might get there.

There has been dissonance in the Brexiteers' ranks between the raucous anti-immigration lobby and the more thoughtful who wish to reclaim sovereignty and turn the UK off the Autobahn leading to 'ever-closer' political union (which some see as a federal super-state run from Berlin).

Somewhere in this debate there has been an intelligent discussion over the nature and practical application of sovereignty in a multipolar world, but it has been hard to hear the argument above the cacophony. Most voters will go to the polls today agonising over whether to follow their gut feelings and vote to leave, or heed the warnings and reluctantly opt for the greater certainty of the status quo.

The result is far too close to call. Whatever the outcome, Britain and Europe have crossed a Rubicon. Fissures have opened which will not quickly or easily be sealed.

Euroscepticism in Britain has moved from being the obsession of an eccentric minority to the acquis of the Establishment. Whoever is the next prime minister, he or she will almost certainly be a eurosceptic.

Some might say that the question now is not whether the UK leaves the EU but when, how and on what terms.

The British want amicable relations with their continental partners and unfettered access to the single market. They do not wish to be part of the political project beloved of Brussels, although they wish their neighbours every success with it.

The challenge in London and continental capitals will be whether those terms can be negotiated in amity or in animosity, in positive or negative mood.

The referendum has polarised British politics. It will ultimately lead to a significant realignment of the British political scene, in both personalities and parties. It has helped open a Pandora's box on the Continent. And it raises existential and urgent political issues for EU institutions and for national governments.

In short, the referendum has changed much, and settled nothing.

The die is cast; but we are far from the end of the game.

Philip Middleton is Deputy Chairman of the OMFIF Advisory Board.

23 Jun 2016

Let battle begin

EU referendum sets milestone for Europe and world

Philip Middleton

The debate ahead of Britain's 'in-out' European Union referendum on 23 June promises to be fierce and increasingly divisive. The opinion polls and bookmakers' odds will oscillate wildly.

Served up before Europe and the world will be theatre and politics of the highest order. The ultimate consequences will be profound and far-reaching. The debate encompasses questions of nationality, economics, jurisprudence, sovereignty and democracy.

This introduction provides the coup d'envoi to daily contributions by OMFIF over the next four months from commentators and observers from Britain and abroad, presenting distinctive perspectives that are intended to be intriguing, stimulating and partial. The series forms part of our overall referendum coverage, launched with a conference on 3 March in London featuring Wolfgang Schäuble, the German finance minister, in co-operation with the German-British Forum and other organisations.

The UK has always been a semi-detached member of the EU. The institution has rarely aroused much passion among Britons. The British people are largely indifferent to the European 'project', and have no enthusiasm for anything 'common' (borders, currencies, tax rates) apart from markets.

True, the tabloid press has occasionally unleashed broadsides against perceived federalist overreach or alleged Brussels inanity, but the question of British membership has preoccupied few beyond small groups of 'swivel eyed loons' on both sides. Now the core principle of membership has become the primary issue of national debate, likely to dominate the headlines up to and beyond 23 June.

What started as a parochial debate within the Conservative party, involving the formation of a party campaigning for 'Brexit' – Britain's departure from the EU – that garnered 4m votes (and a single parliamentary seat) at the 2015 election, has produced a confrontational referendum with immense consequences. One can argue whether this referendum has arrived through prime ministerial tactical ineptitude or as a necessary expression of catharsis for UK citizens. Indubitably, though, beneath the slogans lie fundamental questions for the UK, the EU, and the post-war western liberal consensus.

The populist banner for the 'out' campaign is for control of immigration, the assertion of sovereignty, and the reassertion of the fundamental integrity of the nation state. It is an argument that finds resonance in many other European countries. For the 'remainers', the nation state is an archaic concept, superseded by the subtleties of a multipolar world based on alliances and pooled sovereignty.

The populist banner for the 'remain' campaign is the so-called 'project fear', based on the twin ogres of economic chaos and diminished security which Yes supporters believe Brexit would unleash. The appeal is to stability and the status quo. For the 'outers' the EU is an analogue presence in a digital age, retarding innovation and economic growth, whereas its track record in European security is seen to be nugatory if not actively harmful.

On one side of the argument is growing public dissatisfaction with the perceived power of the political and economic elites and their web of democracy-thwarting alliances within the so-called 'deep state', witnessed by the results of the US presidential primaries and recent elections in Portugal, Spain and Ireland. On the other side is an appeal to the democratic and technical characteristics which have maintained peace and prosperity in Europe for 70 years.

This debate will not be resolved by any one event, even by a poll as momentous as the referendum. But 23 June sets a milestone, for the UK and internationally. Let battle begin!

Philip Middleton is Deputy Chairman of the OMFIF Advisory Board.

29 Feb 2016

SECTION ONE

LEAVE

Outside the EU, according to advocates of 'Brexit', the UK would have more influence in the world, greater prosperity, and better control of its borders, spending and taxes. Nato, rather than the EU, has been responsible for preserving peace. A UK free from the restrictions of Brussels bureaucracy and regulation would strengthen its trade relations with the rest of the world. The UK economy would experience a short-term dip as Britain negotiates a new trading relationship with the EU, but would ultimately rebound strongly. The UK should take a once-in-a-generation opportunity to break free of a Union which is fundamentally incapable of reform.

To reform the EU, Britain must leave

Patrician vision versus plebeian pragmatism

Brian Reading in London

The European Union has been hijacked by ‘patricians’ – the elite, establishment, bureaucrats, multinationals and corporate interests. The ‘plebeians’ are rarely consulted. So the 23 June referendum on EU membership – whether or not it should end in ‘Brexit’ – represents a giant democratic breakthrough.

To plagiarise Churchill, a British departure from the EU is not the end or the beginning of the end. It is the end of the beginning. Prime Minister David Cameron’s effort to seek EU reform as a means of averting Brexit has failed. But Brexit could be the catalyst for reform. If not, the EU is doomed.

We will see the workings of these trends in the run-up to the poll. Adam Smith’s ‘invisible hand’ posited that the pursuit of self-interest could be to the common good. He assumed free markets (my over-simplification). But where markets are constrained by rules set by powerful special interests, and where democratic systems are politically flawed (see, for example, the US gun lobby), self-interest does not serve, but tends to subvert, the common good.

Indeed, self-interest may well decide the outcome on 23 June. Among those who wish to remain, few argue the case for the common good. Most equate a sectional interest with the general interest, as in ‘What’s good for GM is good for America’. The City of London is no exception. Virtually all big multinationals are against leaving – perhaps fearing higher UK taxes. Nowhere is the leap in the dark so prone to special pleading as on the issue of what happens after a feared or favoured British exit.

One point is crystal clear. The terms of continued EU membership have been marginally changed by pre-referendum negotiations. Britain has been offered minor exceptions, mostly meaningless. The EU remains unreformed. Post-Brexit terms are pure speculation. But so are future laws the EU could impose.

The 23 June poll is not simply a British referendum. The negotiations have tested whether other EU members want the UK to remain in. But theirs are patrician voices, who fear consulting their own plebs.

The patricians are impaled on the horns of a dilemma. Conceding meaningful EU reform is unthinkable. For the patricians to give the UK genuine ‘exceptional status’ would encourage similar demands by their own plebs. Membership then becomes ‘à la carte’, not the ‘table d’hôte’ that ever-closer union demands.

Failure to deliver special status increases the risk of Brexit. Yet delivering credible exceptions would threaten plebeian revolts elsewhere.

My father used to say, ‘Blessed is he who expects little, for he will not be disappointed.’ Cameron in his negotiations asked little. Even so, he has been largely disappointed. Brexit support may surge. If sustained, exit will follow. But then protracted negotiations of the new relationship will be blighted by the same dilemma.

If Britain leaves, Europe’s patricians would be tempted to treat the UK extremely poorly, ‘pour décourager les autres’. This tactic would surely backfire. Interdependence works both ways. Barriers to British exports would divert trade. Alternative supplies would cost more or be inferior, otherwise they would have been chosen in the first place.

Britain is already separated from the mainstream EU by its absence from the single currency and from Schengen. Divorce terms would need to be settled, hopefully amicably. Shared common interests suggest Brexit, well handled, would make little difference to the UK. The issue at stake is the EU’s future.

We will see a tussle between the visions of patricians and the pragmatism of plebeians. The patricians do not have a good track record, epitomised by the euro debacle. The EU has failed to deliver utopian expectations. It is understandable that everywhere the plebs are revolting.

Brexit could be the ex-post catalyst for EU reform. Some fear that, if the UK goes its own way, the EU could break up. Yet, if Britain stays, and there is no reform, the dominoes would fall faster. British exit provides the sole method of keeping them standing.

Brian Reading was an Economic Adviser to Prime Minister Edward Heath and is a Member of the OMFIF Advisory Board.

3 Mar 2016

Why Britain needs self-government

Better and happier Europeans outside the EU

John Redwood in London

Out of the EU the UK would have more influence in the world. We would be better off. We would regain control of our borders, our spending and our taxes.

The 'leave' campaign believes in the British people's ability to govern ourselves. The 21st century needs networks of countries, companies and individuals looking out to the world, collaborating and trading with the regions of greatest growth and energy, as well as those nearer to home.

An independent UK, with a voice and vote in more world bodies, would have more friends and allies. Britain is a member of Nato, the permanent grouping of the UN security council, and the 'five eyes' intelligence group (with the US, Canada, Australia and New Zealand). In future, the UK should be a full member of the world climate talks and the world standards bodies.

As the world's fifth-largest economy, the UK can, and should, represent itself at the World Trade Organisation, doing deals with like-minded countries. The EU, by contrast, has failed to sign free trade agreements with the US – the UK's strongest ally – and with China, India, Brazil and all the other big global traders.

Out of the EU we can raise our own taxes as we choose, and spend them as we see fit. Today the UK has to meet EU, rather than its own, requirements in imposing certain taxes, including VAT, and spending on items like benefits. Outside the EU, the UK could spend £10bn more a year – the money we send to Brussels and do not get back. The government can also guarantee unchanged payments to every university, farmer and region of the UK currently getting EU funds as we have to send Brussels all that money as well.

Out of the EU we will have fair immigration. More lower-paid jobs would go to British citizens. By controlling numbers, we can ease pressures on housing, benefits, healthcare and the rest of our public services. Our universities and businesses would still attract the best talent. We would still welcome anyone with skills, good qualifications, and money to support themselves and invest in the UK.

The 'leave' campaign focuses on positive messages. Those wishing the UK to remain spread desperate and absurd fears. We are told the EU will not trade with us anymore. How bizarre, when the rest of the EU sells Britain so much more than we sell them. The German government has made clear it doesn't want new tariffs and barriers on German exports to the UK, so accepts there cannot be new barriers on British exports to Germany.

We are told we will have to be like Norway and pay in contributions to carry on trading. What poppycock! Over 160 countries worldwide trade successfully with the EU. Some have increased their EU trade more quickly than the UK has done. They pay no fees into the EU system to do so.

'Remain' campaigners have a low view of Britain's partners. They say these countries are vengeful, because they would seek to thwart us if we leave, and stupid, because they would damage their own exports to us, or even get into war without us there as a stabilising influence.

I am a good European. My country is democratic and freedom-loving. Europe is not my country and never will be. I want self-government. Freed from the entanglements, taxes and controls of the EU, the British would be better and happier Europeans. And the others would be free to complete their monetary union and political union – without us.

John Redwood is MP for Wokingham, Chairman of the Conservative Economic Affairs Committee and a former Secretary of State for Wales.

8 Mar 2016

Europhile turns sceptical

Why Britons must run Britain

David Potter in London

In March 1961, when I won an undergraduate place at Oxford, my idealism and belief in Europe and the Common Market knew no bounds. I was particularly driven by ‘the end to war in Europe’ arguments. I spent a month hitchhiking round France, taking a copy of the Treaty of Rome in my rucksack. I have now become a supporter of British departure from the EU – a 50-year journey from europhile to ‘leaver’.

As the Common Market took wing and Britain eventually joined in 1973, all seemed well. After the 1991 Maastricht conference decided the path to a single currency, doubts crept in. With the transformation of the Community into the EU came an increased political dimension.

Having spent my early career in the eurobond market (a classic example of London’s innovation and opportunism) I saw practical problems. Surely political union should precede a common currency? Were Europe’s economies not too diverse? Where was the mechanism for resource transfer between regions?

When the euro started, in 1999, many of the elite – bankers, businessmen, journalists and politicians – believed it would work. By 2005 it was clear that they got it wrong. A decade later, over the more fundamental question of Britain’s EU membership, they are wrong again.

The British people distrust an arrogant elite’s pronouncements backing the status quo. The natural order of life, from the family upwards, is to associate in smaller rather than larger groups. The trend is clear, from the Soviet Union’s break-up to the demand for regional devolution. Huge organisations like the EU are too big to run and too distant from ordinary citizens. The same is true of the National Health Service, big banks and big companies.

The fundamental choice is about UK sovereignty versus EU sovereignty. The pro-EU camp chooses to obscure the issue by talking of Britain’s opt-out from ever closer political union. In fact, Europe will resolve its economic and political problems only by closer and faster union. Britain’s opt-out may help the EU to politicise faster. Another reason to steer clear.

Europe has wasted a year as the Schengen agreement breaks down. There are only two ways to contain the migrant crisis. Either the EU will have to implement an absolutely centralised and directed response, or individual countries will have to make their own decisions. In fact, the people would rather their own countries take control, as Sunday’s regional elections in Germany showed.

The market for goods and services in Europe is stagnant. The rest of the world is expanding. Europe will not recover soon from its economic ills. Europe needs our market for its exports. Businessmen seek out markets not because of regulation but in spite of it. If the ground rules change post-Brexit, businesses will adapt quickly.

There are three months left for this journey. Sadly, the ‘remain’ campaign is provoking fear of the unknown and concern about security. The latter is a sideshow; security comes from being part of Nato and the UN. The security argument could backfire if there is another terrorist atrocity in Europe.

Leaving the EU would be an opportunity to regain control of our law, our economy and our frontiers. We have far more to fear from self-serving elites benefiting from the status quo.

Britons have done rather well running their country for centuries. We have shown ourselves able to adapt to changing circumstances. I hope we do so again.

David Potter was Chief Executive of the Guinness Mahon Group.

15 Mar 2016

The race for the digital future

High-tech ‘dreadnoughts’ will change everything

John Kornblum in Berlin

The most puzzling development in politics during the last decade is the apparent determination of western European leaders to re-create the Soviet Union in western Europe.’ – Mikhail Gorbachev

In the end, the 23 June referendum will probably be decided by emotion. A British version of Trumpism versus the good old Methodist values of Hillary Clinton. Most votes in the UK will go to the side which can build the most appealing emotional picture of Britain’s future. Hard to say who that will be.

But if logic has anything to do with it, the Gorbachev quote is as good a starting point as any. Which is the most relevant model for the future? A UK mired within an organisation which even the president of the European parliament fears is in danger of blowing apart? Or a global identity as a central node of a growing system of integrated networks built with the help of American and Asian ingenuity?

As the commentator Robert Colvile wrote in the Financial Times: ‘In the old days, countries used to measure their virility by the size of their fleets. If tech giants are the new dreadnoughts, Britain and Europe were long ago blown out of the water.’

In other words, most of the arguments being deployed in the Brexit debate are rapidly becoming obsolete. Europe’s future cannot be understood without focusing on the importance of these new high-tech dreadnoughts. They will change everything. The Soviet Union was ultimately brought down by its inability to keep up with technological change.

Without questioning the democratic credentials of EU leaders, the similarities between the Soviet Union and the European Union are striking, down even to their names. Both were built in the tradition of the European empires – an amalgam of nations and people ruled from the top down by an unelected elite. Efficiency is not part of their credo.

Try as it may, the European Union has not been able to overcome this fixation with the past. Be it the euro crisis, defence strategy, the refugee crisis or the race for high-tech leadership, EU Europe always seems to be less than the sum of its parts.

Much of this lag flows from the psychology of the Brussels establishment. It is based on the deeply held belief that peace and prosperity can be assured only through equilibrium enforced by an elite group of leaders. The goal is not good policy or even results, but rather to ensure that no one rocks the boat.

But two things are certain. Whatever its advantages, the EU is not going to help its members move to the forefront of the new digital world. In fact, Europe is likely to fall even further behind. And whatever the outcome of the 23 June referendum, Britain’s future is likely to be decided not by whether it stays in the EU, but by its ability to attract talent and capital for the next critical phase of the industrial revolution.

Embedded in the EU, Britain would gain stability and access to an economic system based on social welfare and traditional manufacturing. Both are rapidly becoming obsolete. Germany trades more with the US than with France.

As David Owen, former UK foreign secretary, has pointed out, a Britain outside the EU would retain a privileged status in many important fields of trade. Europeans are not about to exclude their second largest economy. At the same time, the UK would be able to build both on the strength of London as a global financial capital and on its many links beyond Europe. It might even attract some British engineers back from Silicon Valley.

John Kornblum is a former US Ambassador to Germany, Senior Counsellor at Noerr LLP, and a Member of the OMFIF Advisory Board.

17 Mar 2016

Divorce and a new settlement

Brexit's trade consequences would be mild

Brian Reading in London

The European Union is Britain's largest trading partner. In 2015 it accounted for 45% of British exports and 53% of imports. Departing from the EU would presumably diminish these shares. In the absence of a liberal divorce settlement, trade both ways would suffer. But it does not inevitably follow that reduced trade dependence is an unmitigated disaster. Indeed a case can be made otherwise.

This is not to argue black is white or vice versa. Conventional wisdom is often oxymoronic. In the Brexit debate all supposedly foregone conclusions require rigorous examination.

Proximity powerfully influences trade patterns. Use-by dates and transport costs are important as well as value for money. We don't import freshly baked baguettes from China. Continental drift is rather slow. Brexit will make no difference to distance. In or out, continental Europeans will continue substantially to trade with their near neighbour.

The EU is a customs union with a common external tariff, currently 18% on agricultural products and less than 3% on manufactures. But imports of cars and trucks are more heavily protected. A free trade area in a protectionist world is suboptimal. It both creates trade (benign) and diverts trade (malign).

The EU buys British exports and Britain buys from the EU because these products are cheaper and/or better than the alternatives. Proximity lends a hand.

But value-for-money choices can either reflect genuine costs and benefits, or be distorted by tariffs (or exchange rate fluctuations). Brexit would correct some 'artificial' trade-diverting choices. It may substitute others depending upon the divorce settlement.

Other than agricultural products, it is hard to prove whether on balance EU trade creation or diversion is greater. However, Transatlantic Trade and Investment Partnership negotiations open the door to wider free trade and it would be hard to exclude the UK from any deal. Agricultural concessions in the Doha round of World Trade Organisation negotiations offer Britain benefits, regardless of Brexit.

Possible future British trade losses vis-à-vis the EU would not be new. When the euro was born in 1999, the EU's share of British exports was 10% higher, at 55%, than it was in 2015. British non-EU exports grew twice as fast as EU exports between 1999 and 2015. The EU import share fell slightly, down to 53% from 56%.

This is explicable in terms of growth differentials between Britain and the rest of the EU. If import shares in final spending are unchanged, a faster growing economy's trade balance will deteriorate with slower growing partners. During the past quarter century, Britain's final demand has grown faster than the rest of the EU's, and non-EU countries' has grown faster than both.

Britain's EU trade has been a mixed blessing in recent years. In 2010 George Osborne, chancellor of the exchequer, promised to eliminate Britain's budget deficit by 2015. He failed. One excuse, not the whole story, was the euro debacle's impact on UK growth. He now promises to eliminate the deficit by 2020. Anaemic EU growth may be cited as a future alibi. Brexit offers trade diversion to faster growing markets. It may be cathartic, but – as the gardeners say – harsh pruning leads to buds in May.

Brexit's consequences are uncertain. They are certainly frequently exaggerated by those who wish the UK to stay in. Some say Brexit would condemn Britain to a decade in the doldrums. This is unlikely.

British total exports account for around a third of current price GDP, with exports to the EU roughly 15%. It is ridiculous to claim, as some in the 'remain' camp maintain, that Britain's exit would result in the loss of all of this. Losing say 10% would reduce GDP by 1.5%. This is not so different from public spending cuts in recent years.

Imports from the EU would also fall. Part of both would be offset by trade diversion to non-EU countries. Diverted imports may exceed diverted exports. Unless trade both ways was severely reduced, to the EU's disadvantage especially in agricultural products, the medium-term consequences must be mild. Historians reviewing Brexit in coming years may ask what all the fuss was about.

Brian Reading was an Economic Adviser to Prime Minister Edward Heath and is a Member of the OMFIF Advisory Board.

31 Mar 2016

Britain's global future

Liberation from a non-democratic European Union

Nigel Lawson in London

In his new book *The End of Alchemy*, Mervyn King, the former governor of the Bank of England, devotes a chapter to the European Union.

In it, he points out that 'the crisis of monetary union will drag on, and it cannot be resolved without confronting either the supranational ambitions of the European Union or the democratic nature of sovereign national governments. One or the other will have to give way. Muddling through may continue for some while, but eventually the choice between a return to national monies and democratic control, or a clear and abrupt transfer of political sovereignty to a European government cannot be avoided.'

He concludes that 'the tragedy of monetary union in Europe is not that it might collapse but that, given the degree of political commitment among the leaders of Europe, it might continue, bringing economic stagnation to the largest currency bloc in the world.'

Supporters have presented EU membership to the British people as an economic proposition. It is nothing of the sort. It is a political enterprise – the creation of a full-blooded political union, albeit of a federal nature: the United States of Europe. The means of securing this are largely economic but, if there were to be any economic benefit, that would be the merest coincidence. And, as we see from the lamentable economic performance of the EU as a whole and most of its member states, there is no economic benefit, only a high economic cost.

This overriding political objective is not in itself disreputable. It is, however, distinctly unattractive that it is being imposed by the European political elites even though there is no evidence it has the support of most of the peoples of Europe. A fundamental contempt for democracy is one of the so-called European movement's least attractive aspects.

But for the UK to remain in the EU would be particularly perverse, since not even our political elite wish to see this country absorbed into a United States of Europe. To be part of a political project whose objective we emphatically do not share cannot possibly make sense.

The British prime minister argues that he has secured a British 'opt-out' from the political union. But this is meaningless. We remain fully subject to the ever-growing corpus of EU legislation and regulation, all of it directed towards full political union.

'But', comes the inevitable question, 'what is your alternative to membership of the European Union?'

A more absurd question would be hard to envisage. The alternative to being in the EU is not being in the EU. It may come as a shock to the little Europeans in our midst that most of the world is not in the EU – and that most of these countries are doing better economically than most EU member states.

Moreover, out of the EU we would no longer have to pay our annual subscription of some £10bn a year for nothing in return – yes, nothing, for the figure is calculated after netting off everything our farmers and scientists and others receive from the EU. Nor would our business and industry have to carry the burden of excessive European regulation, which bears down particularly hard on the SME sector.

Yes, we would have to conform to EU regulation when exporting to the EU, just as we have to conform to US regulation when exporting to the US. But exports to the EU represent only some 13% of UK GDP, and the proportion is declining as the emerging world continues to emerge. The liberation of the remaining 87% of the UK economy from a bureaucratic Brussels that believes more Europe is always a good thing, and that more Europe means more EU regulation, is greatly to be desired.

To suppose that being within the so-called single market confers a great economic benefit is nonsensical. If it did, our European partners would not be in the mess they are today.

What we have in our grasp is nothing less than a genuinely global future as a self-governing democracy. We must seize it.

Nigel Lawson is a former Chancellor of the Exchequer.

4 Apr 2016

EU would be better off without the UK

What Britain can do for Europe

Ernst Welteke in Frankfurt

The British, as a great footballing nation, know that, if every footballer plays only for himself, his team will never win. Would Britain be better off staying inside the EU club, or by going it alone after the 23 June referendum?

I would suggest that this is the wrong question. It is not right that Britain focuses only on its own advantages and disadvantages. The correct question is not what the EU can do for Britain, rather what Britain could do for Europe.

Many referendum commentaries concentrate on the economic repercussions, either for the UK or for the rest of Europe, if the UK leaves. That again is the wrong angle.

Europe is much more than an economic zone. It is about peace, freedom, human rights and welfare, all over the world. To quote Winston Churchill's famous 1946 speech in Zurich: 'If Europe were once united in the sharing of its common inheritance, there would be no limits to the happiness, to the prosperity and the glory which its three or four hundred million people would enjoy.'

But he also said: 'Great Britain, the British Commonwealth of Nations... must be the friends and sponsors of the new Europe and must champion its right to live and shine.' So, in other words, it was never clear whether Britain should be in or out of unified Europe.

The European Union treaty of 2008 provides some clarification. Reducing the in-out issue to fiscal or economic criteria is not enough. The treaty states: 'The Union is founded on the values of respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights, including the rights of persons belonging to minorities. These values are common to the member states in a society in which pluralism, non-discrimination, tolerance, justice, solidarity and equality between women and men prevail.'

At the moment, in many ways the EU is not living up to these ideals. We see in many states a renationalisation of politics, together with a reduction in solidarity and a rise in right-wing populist and nationalistic parties. The elections in three German states on 13 March, in which the anti-immigration and anti-euro AfD party scored gains, provide a cautionary tale.

The European summit in February agreed a package of changes for the UK's membership. This set a bad example for other countries or political parties, because of the one-sided focus on the UK.

Why should only the British decide whether or not the UK remains in? Why not ask the other Europeans to choose by majority voting whether they wish Britain in or out?

Maybe 500m other Europeans are fed up with all this UK special pleading and desire for separate rules – especially as it could lead to the break-up of the whole European construct. Without the UK, Europe might be better able to unify in line with Churchill's vision – and would have a better future.

In a globalised world no individual European state can prosper on its own. Handling terrorism, refugee flows, climate change, financial stability: all these and many more problems require an ever more integrated Europe.

We Europeans cannot wait for latecomers, nor can we constantly take care of members who are permanently dissatisfied. The British cannot always expect that the rest of Europe will allow them to 'have their cake and eat it', perpetually saying, as the Germans put it, 'Wasch mir den Pelz, aber mach mich nicht nass' ('Wash me but don't make me wet').

The British should go ahead and leave. The rest of Europe will be better off without them.

Ernst Welteke, a Member of the OMFIF Advisory Board, was President of Deutsche Bundesbank between 1999 and 2004.

7 Apr 2016

Nato needs an independent UK

EU is stifling Britain's strengths in security

John Kornblum in Berlin

The outcome of the 23 June referendum will ultimately be based more on emotions than on facts.

But that does not mean that arguments are not important. Many of the issues being debated are central to the western world's continued prosperity.

Recent months have brought the question of security into sharp focus. Slowly we are coming to understand that the West's security is not defined only by western military strength or by that of our enemies. In the newly globally integrated world, anything from computer hackers to errant bacteria to refugees can threaten as much as military attack.

Britain has always been a leader in strategic analysis and military readiness. It is also a generally well governed country. The EU is none of these and that is the problem. EU membership is stifling Britain's inherent strengths in the field of security.

This is why I suggested at the German British Forum-OMFIF conference on 3 March in London that, whatever the other arguments may be, Britain's own security and its role in western defence was likely to be enhanced if it left the EU. This drew a volley of disagreements, most of which were summarised in a piece for the OMFIF UK EU referendum series on 6 April entitled 'A time of existential threats' by Sir Richard Shirreff, formerly Nato's deputy supreme allied commander, Europe.

Shirreff rehearses the standard EU arguments about soft power, helping social development and expressing solidarity, for example, which have become the EU's cover for its total lack of security strategy or capability. I worked primarily on security issues in and with Europe for nearly 40 years, including as head of the European Security Division of the State Department, deputy US representative at Nato, head of the US Mission to the Organisation for Security and Co-operation in Europe, and Assistant Secretary of State for European Affairs, not to mention four years as US ambassador to Germany. I can give plenty of examples, be it the Balkans, the Middle East, Ukraine, counterterrorism or Russia, where the EU could not succeed without Nato.

Shirreff and others seek to draw an artificial line between Nato and the EU: Nato is war, the EU is peace. In fact, reading the Nato treaty will reveal that Nato is essentially about peace and co-operation among democracies. Three of the first five Nato articles are about democracy, mutual support and consultations. Nato was the source of the strategy of détente. It was the place where western strategy towards the Helsinki process, the arms control negotiations, the relationship with post-Soviet Russia, were worked out. Since the early 1970s, it has had an environmental and a disaster relief programme.

The underlying reality is that the West is a totality and all parts are important. The EU is not pulling its weight because it doesn't function. Jean-Claude Juncker, the European Commission president, has said this very clearly. Nato does function and its role is increasing. Nato, and thus peace in Europe, would benefit from a more independent British voice.

Much as though this argument goes against the conventional wisdom, Nato and the western alliance's capability to act co-operatively to preserve peace and security in the western world would benefit from British exit from the EU. This is a fact based on experience over many years. British voters on 23 June will have to come to terms with this reality, and decide accordingly.

John Kornblum is a former US Ambassador to Germany and Senior Counsellor at Noerr LLP, and a Member of the OMFIF Advisory Board.

8 Apr 2016

Cameron's unsatisfactory deal

Britain's non-sovereignty and the vote to leave

Jack Wigglesworth in London

My City career was wholly concerned with an issue that goes to the heart of the UK referendum campaign – sovereignty. I was exclusively involved with financial securities and related instruments, including weathering London's 1986 'Big Bang' liberalisation. By then I had already spent six years developing and running the Liffe financial futures exchange.

I was initially an economist, later a bond salesman in the market for UK government bonds, known as gilts, because of their absolute, sovereign guarantee. London then was the only significant such financial market in Europe.

In the 30 years since Big Bang, the financial markets in Europe have shown they can make giant reforms. Unfortunately, we cannot say the same of the European Union.

In attempting to renegotiate Britain's EU arrangements, David Cameron, the prime minister, has not secured a satisfactory deal. The UK has failed to enshrine the supremacy of UK law and parliament over European decision-making. The European court of justice can override the UK 'supreme' court, so UK sovereignty is meaningless.

Cameron is unlikely to achieve the fundamentally reformed EU for which he urged the electorate to vote. That goal does not appear to be even on the horizon.

I have watched developments from the 1970s, when the EU (as it now is) promised to be an enlightened, free trade-minded area. It has now become narrower and more introspective, with protectionist overtones, administered by bureaucrats in Brussels over-preoccupied by political goals, rather than the trade and financial aspects necessary for success.

Koen Lenaerts, the recently appointed chief judge in the European court, has stated that all cases should be heard with the presumption of always conforming with the move to ever closer union. This is necessary for the euro area, but the goal runs counter to Britain's global, free trade tradition and instincts. The two approaches appear irreconcilable.

A comparison of Cameron's very good January 2013 European reform speech and the February 2016 deal highlights the paucity of his achievements. Cameron probably got as much as he could on immigration; otherwise the successes are threadbare. He wanted more competitiveness for the EU because, as he said three years ago, the single market 'is only half the success it should be'. Instead, he got 'efforts to strengthen the internal market... lowering administrative burdens'.

Cameron wanted more flexibility 'to accommodate the diversity of its members'. He got agreement that 'the UK... is not committed to further political integration into the EU' – an advance that doesn't go far enough. He wanted fairness in new euro area arrangements 'for those inside it and out'; he got an assurance that non-euro countries would not be discriminated against by the euro bloc.

Cameron wanted power 'to flow back to member states', and greater democratic accountability through 'a bigger and more significant role for national parliaments'. In both areas he achieved nothing of significance.

Unfortunately, the EU will remain bogged down for decades by the foolish decision to force a fundamentally flawed single currency and the Schengen treaty on so many countries with very different fiscal policies, cultures and customs.

The UK within a sluggish EU hidebound by the euro and the gaping democratic deficit risks losing out on worldwide opportunities to align with the more dynamic trading nations. The next European treaty would inevitably embroil the UK in even further euro area integration, despite non-membership of the euro.

For all these reasons, in the 23 June vote I favour leaving the EU, with which the UK will retain close and friendly trading arrangements. This outcome is likely to be in the best interests both of Britain and Europe as a whole.

Jack Wigglesworth is a founder and former Chairman of London International Financial Futures and Options Exchange (Liffe) and a Member of the OMFIF Advisory Board with over 40 years of experience in capital markets, having started his career in the 1960s with Phillips & Drew.

12 Apr 2016

Britain can manage its own affairs

Rest of world forging ahead of introverted EU

Daniel Hannan in Brussels

Over the past decade, countries such as China, India and Ethiopia have doubled the size of their economies. But the euro area, incredibly, is the same size now as it was in 2006. Just as the 18th century saw a gravitational shift from the Mediterranean to the Atlantic, so our age is witnessing a shift from the Atlantic to the Pacific. As recently as 1980, according to the International Monetary Fund, the 28 states that now make up the EU accounted for 30% of world GDP. In 2015 that figure was 17% and falling.

Developing economies should grow faster than developed ones, just as sunflowers should grow faster than oak trees. But it's worth noting that the euro area is being outperformed by Canada, the US, New Zealand – and, indeed, everywhere else. I recently made a jocular remark to the effect that every continent was growing except Antarctica and Europe. A Spanish friend sent me a list of statistics showing that the chief economic activity in Antarctica, cruise ships, is in fact booming. Britain, he pointed out, is trapped in the world's only stagnant trade bloc.

The UK is a merchant and maritime nation with few natural resources. Our prosperity depends on buying and selling. Yet as long as we are in the EU we can't sign a bilateral free trade agreement with the parts of the world that are growing. The EU won't talk to China. It shelved its talks with India after nine years of stalling. Its negotiations with Australia are blocked because of a dispute involving Italian tomato-growers.

When the EU was established, freight costs were high, refrigeration was expensive and travel rare. Regional trade blocs looked like the future. But in an age of Skype and cheap flights, distance has never mattered less. Why should Britain allow an accident of geography to trump ties of language and law, habit and history, culture and kinship?

British Remain campaigners like to stress that Britain wisely stayed out of both the euro and the Schengen area. By refusing to join the two initiatives that Jean-Claude Juncker, the European Commission president, calls the EU's 'greatest achievements', Britain has indeed insulated itself against the worst of the financial and migration crises. For the rest of the EU, the priority is to keep the euro and Schengen in place as the pillars on which political integration rests. While the rest of the world forges ahead, the EU will remain introverted – obsessed with preserving its antiquated structures.

Because Britain kept its borders and its currency, it is lucky enough to have a choice. Should the UK make the euro and migration problems its own? Or should it strike a different deal with the EU, retaining the benefits of free trade, intergovernmental collaboration and a military alliance – but removing the UK from Brussels' political structures, thus allowing euro area states the freedom to pursue their own vision of further integration?

As recently as 2006, the EU was taking 55% of British exports. Last year, that figure had fallen to 45%. Where will it be in 2030 – or 2050? How low must it go before we stop hearing the bizarre argument that we should merge our political institutions with those of nearby states so as to have a minority voice in the setting of standards over a declining portion of our commerce?

There are 193 states in the world; 165 of them are not in the EU. I do not believe that Britain is unable to manage its own affairs in the same way as, say, New Zealand or Switzerland. Surely Britain is not so diminished as to have lost our global vision, our confidence in our own democracy. That's why I shall be voting to leave on 23 June – and I hope the majority of the electorate joins me.

Daniel Hannan is a Conservative MEP and author of Why Vote Leave, published by Head of Zeus.

14 Apr 2016

Awakening for Europe's believers

Bad and good news if Britain leaves

Jacques Lafitte in Brussels

The 'Panama papers' tax avoidance affair has badly dented the authority of David Cameron, the UK prime minister – and could fatally undermine his ability to win the 23 June referendum. Britain's departure from the European Union would have important implications.

The UK economy is not nearly as strong as many Brexiteers like to think. At times, when it suits them, they like to present it as strangled by EU red tape. The reality is much worse.

The UK current account deficit reached an alarming 7% of GDP in the final quarter of 2015. It will get worse before it gets better. UK manufacturing output fell in February to the level of three years ago.

A key reason why the UK has been able to stay out of the International Monetary Fund's clutches is because of large inflows of foreign direct investment. Britain guarantees access to Europe's single market, free of tariffs and non-tariff barriers. So the UK has been immensely successful in convincing Japanese and US firms to invest and create jobs in Britain.

That guarantee may soon be gone, at least for the 10 years or more needed for negotiation of a post-Brexit UK-EU agreement. Partly because of worries about the referendum outcome, net foreign investment into the UK has already fallen sharply and could soon turn negative.

The consequences for sterling (down) and interest rates (up) are clear. The IMF has warned of 'severe' damage to the British and world economy if the UK leaves. International business leaders this week have told Cameron of the crucial importance of EU membership for foreign investment.

We will see another effect on the property market. According to The Economist's calculations, the UK has the world's third most overvalued real estate sector. A sharp rise in interest rates would burst the bubble. A correction has already started at the high end of the market.

The Brexit omens aren't good for the City. A sizeable chunk of the UK's GDP is at stake. A senior City figure has told me that plans are in place for relocating tens of thousands of jobs to, in this order, Dublin, Frankfurt and Paris. Among many other examples, regardless of the regulatory fate of the Deutsche Börse-London Stock Exchange merger, the European Central Bank would force repatriation to the continent of euro-denominated securities and derivatives clearing. The impact would be well over 1% of UK's GDP, and the most successful part of it.

Renewed questioning about the future of Scotland and the likely tensions in Northern Ireland would take their toll too. France would denounce the Le Touquet treaty and put back the British border where it belongs according to Brexiteers – in Dover – resulting in more refugees arriving in the UK, not fewer. This would harm UK-EU relations and create yet more uncertainties for foreign investors.

That's the bad news. Now for the good. A bleak UK scenario might turn out to be just what the EU needs: proof that the grass is not greener but scarcer outside. It may be salutary for the rest of Europe to show what happens when a country leaves for good.

If Britain leaves, there would be tensions – particularly in Poland, the Czech Republic and Hungary, and also in the Netherlands, France, Italy and in Nordic countries. But a British exit, for those who are left, would give a fillip to European integration. It's important to remember that the present state of Europe has been frustrating not just for europhiles, but for eurosceptics too. Now there's a chance to change that for the better, thanks to the coming reality check. For true believers in Europe, a British exit could bring a reawakening.

Jacques Lafitte is Chief Executive of Avisa Partners, Brussels, and a former aide to Yves-Thibault de Silguy, the European Commissioner responsible for introducing the euro in 1999.

15 Apr 2016

The boon of a UK exit

Leaving EU would boost UK competitiveness

Ruth Lea in London

The 23 June referendum will be a choice between Britain becoming a self-governing democracy once more or remaining in an increasingly dysfunctional EU struggling with the migration crisis, pondering further euro area integration and worrying about sluggish growth. I shall vote to leave.

There are uncertainties associated with leaving the EU, but staying is full of uncertainties too. Who knows where the EU will be in five years' time?

Trade with the EU, and associated jobs, will be uppermost in many minds. The EU remains Britain's largest trading partner – even though it is declining in significance as EU growth lags behind more dynamic parts of the globe – and any major disruption to Anglo-EU trade would be damaging. But there is no convincing reason to expect major disruption.

The UK had a current account deficit with the EU of £106.4bn in 2015. Within this total the goods deficit was £89bn – £31.5bn with Germany alone. For every £3 of goods exports to the EU, Britain imports £5. No German car exporter or French wine exporter would wish to see impediments to trade with Britain.

After 'Brexit', UK-EU trade would continue under World Trade Organisation rules as the default position in the absence of an EU trade agreement. British exporters would face the EU's common external tariff on goods. The average CET is very low, but cars, for example, are subject to tariffs of around 10%. It would make commercial sense to push for a trade agreement, and for our EU partners – with their huge trade surplus – to reach agreement expeditiously.

Two key articles in the Lisbon treaty favour successful negotiations. Article 8 talks of 'a special relationship with neighbouring countries, aiming to establish an area of prosperity and good neighbourliness'. Article 50 concerns a member state's withdrawal. It specifies that the EU 'shall negotiate and conclude an agreement... taking account of the framework for its future relationship with the Union'.

In the event of a vote to leave, the British government would trigger Article 50. This need not happen immediately after the vote, and there would then be up to two years to negotiate the new arrangement (which could be extended if agreed by the European Council and Britain.) After that, we would leave. The Lisbon treaty outlines both the 'mood music' and the mechanism of withdrawal. It would surely be honoured.

Brexit would provide a major competitiveness boost to the British economy. First, we could repeal or amend those EU regulations which business finds most irksome. Second, we could negotiate our own trade deals, on purely commercial grounds, with favoured countries with which the EU has yet to conclude an agreement. Third, we could agree a more pro-business immigration policy which does not discriminate between EU and non-EU nationals. Fourth, we would no longer be a major contributor to EU funds, a useful potential addition to the Treasury's coffers.

Britain's economic future is already bright – and Brexit would enhance it further.

Ruth Lea is Economic Adviser at Arbuthnot Banking Group and was formerly Head of the Policy Unit at the Institute of Directors.

19 Apr 2016

Britain's Efta option

UK exit would blaze a pioneering path

John Petley in London

If one asks British people why they support European Union membership, the answers are, for many, 'to keep my job', 'because we need to trade with the rest of the EU', or 'I'm nervous about a step into the unknown'.

With so much of the debate revolving around economic issues, it's easy to forget the EU is a political project. The aim of the EU is, and has always been, to create a federal superstate in which individual nations eventually lose their identity. As François Hollande, the French president, said in July 2015, 'What threatens us is the lack of Europe, not the excess of it.'

There are, in the UK, very few true believers in this proposition. Polls conducted on behalf of the eurosceptic Bruges Group think tank have found that, given a choice between remaining in the EU or rejoining the European Free Trade Association, there is a clear majority for the latter – in other words, confining the UK's EU relationship purely to trade.

This makes far more sense than adopting Prime Minister David Cameron's February EU deal, which achieved nothing of substance. A vote to remain would still leave the UK an unenthusiastic member of a club committed to closer political and economic union. Outside the euro area and the Schengen agreement, we could never have a seat at the EU's top table. In the words of Peter Lilley, the former Conservative minister, we would merely be 'the appendix of Europe'.

The Efta option is a proven off-the-shelf alternative. Efta members Norway, Iceland and Liechtenstein have full access to the EU's single market via the European Economic Area agreement. This would allay the business community's concerns and allow trade to continue without interruption. While far from ideal for a long-term relationship, it is much better than opponents of such an arrangement pretend.

Take the example of Norway. The country is widely consulted in the framing of EEA-relevant legislation which is what really counts, even if it does not have a vote. An estimated proportion of only 20-30% of total EU law (the so-called *acquis*) applies to Norway. Some are technical issues relating to trade, such as the order in which ingredients must be labelled on a bottle of ketchup.

Norway is not subject to the Common Agricultural Policy or the Common Fisheries Policy. It cannot be fined by the European Court of Justice if it refuses to implement a directive. It is not liable for the debts of EU institutions. All in all, a much better arrangement than Cameron is offering us.

Some in the Leave camp have proclaimed that, 'We could do better than Norway'. That is possible, but it would take time.

By leaving the EU, Britain would blaze a pioneering path. A divorce after more than 40 largely unhappy years is not going to be quick and easy. But the Efta route would allow us to make the parting of the ways as smooth and amicable as possible.

John Petley is Operations Manager for the Campaign for an Independent Britain.

25 Apr 2016

What a wonderful non-EU world

Politicians should benefit workers, not businesses

Stuart Wheeler in London

The world outside the European Union will be wonderful! That's why the UK should leave.

Outside we can take our own decisions. We have not been invaded for nearly 1,000 years. We have taught others how governments should work. Now we can be our own masters again. Michael Gove, the Conservative MP and former education minister, one of the leaders of the Leave campaign, makes the point well. Again and again, he has told us, the ministerial civil servants say to him, 'I quite understand, minister, but we cannot do that. It is against EU rules.'

Why should we worry about entering a world where we decide for ourselves? Are we afraid they will be horrid to us if we leave?

The EU is trying to frighten us. But once the British are out, the EU will act in its own interests. The rest of the EU sells £60bn of goods to us in excess of what we send to them, and by God these countries need the money. So of course the other European nations will enter into a free trade agreement with us. The people running Europe are not mad.

But even if there was no free trade agreement, that would matter little. According to a study by Michael Burrage, a director of market and corporate strategy research company Cimigo, published by think tank Civitas, 'There is no evidence that the single market programme has helped the exports of the UK to other Organisation for Economic Co-operation and Development countries.'

The average duty would be little more than 1%. The US pays it. Japan pays it. Our friends in the Commonwealth pay it. They all export to the EU with no difficulty. So could we. We have no reason to be tied to this group of 500m people, an area struggling to achieve decent growth. Out of the EU, we would be free to make deals with any other country in the world. At the moment EU rules forbid it.

We must think carefully about how to prevent terrorism. We need to consider that 1m people enter the EU as refugees each year. Some are indeed refugees. Some simply want a better economic life. A small proportion, but nevertheless a crucial one, are terrorists. Once they get in, it is not hard for them to get a passport. Then we have no right whatever to exclude them from this country.

Reflect, too, on this quotation: 'My argument is not going to be in any way that Britain can't succeed outside the EU. Of course we could. We are still a great country.' Who said that? David Cameron, the UK prime minister. He was right.

So governing ourselves is the great prize.

Reflecting on more down-to-earth matters, we must bear in mind that more than 50 healthcare workers recently called for the UK to leave the EU to save the National Health Service. With just a small part of the UK's gross EU payments of £350m a week, we could do wonders for the NHS.

And there will be higher wages for our lower paid if we are on our own and control immigration from the EU. Businesses like to employ foreigners for unskilled work. They accept lower pay than our workers will accept. Businesses are important. So are British workers. The duty of politicians is primarily to benefit our own people rather than businesses.

My message to British people who are proud of our country, as I am, is this: For goodness sake, vote Leave.

Stuart Wheeler founded spread-betting firm IG Index and was Treasurer for the UK Independence party between 2011 and 2014.

29 Apr 2016

Chance of a lifetime

Why Britain must leave a centralising EU

Kate Hoey in London

For the British, the European Union has always been at best an awkward fit. The UK has long-established and stable institutions, an admirable representative democracy, and a history and geography which give us a different cultural outlook from many on the Continent.

The EU's ambitions to become a state in its own right undermine the sovereignty and sense of identity that UK citizens share. Even those who deny the EU has such an ambition cannot deny the direction in which it is heading. Each of the long succession of problems thrown up by the EU's evolution tends to lead to a 'solution' involving further integration. The latest examples are the migration crisis and calls for a common external border force.

The EU's direction of travel damages our society. For that reason I believe we must take the opportunity of departing.

We have limited the damage so far by staying clear of the most dangerous of the EU's nation-building policies. Despite the urging of starry-eyed europhiles, including many large businesses, we remained outside the euro and the Schengen passport-free zone. Fortunately, we have kept our own currency and border controls. No one now would advocate joining either the euro or Schengen.

Europhiles with sentimental attitudes in favour of togetherness, together with short-sighted businesses, have got it wrong in the past. In my view they are wrong today. The EU is too large and diverse to be able to respond quickly and sensitively to the problems of a fast-changing world. The migration crisis has highlighted the difficulties.

Moreover, the EU is wedded to austerity policies. This impairs the interests of many in Europe. As a Labour MP, I value the way in which the UK supports its disadvantaged citizens and lagging regions. The Greek crisis demonstrated the unwillingness of richer member states to support the poor of Greece, where more than half of younger adults are now out of work.

The calamities associated with euro area austerity have led to a rise of far-right parties across much of Europe, just as similar policies did in the 1930s. The argument that we should stay in and lead a campaign for reform is naïve. The EU's thrust and direction leads the continent towards a debilitating centralisation inimical to Britain's history and interests. We have little choice but to leave.

'Leavers', like myself, wish to restore UK sovereignty and regain control over our labour markets. 'Stayers' warn that leaving will be too disruptive and costly. But they rely on speculative assumptions that our trade partners will be petulant, rather than acting with rational self-interest towards what is, for the EU, one of the largest export markets.

The UK will still have much to offer the EU from the outside, not least our still formidable defence and intelligence capability, as well as the world's fifth largest market. Since the EU will remain our nearest neighbour and largest trade partner, both the UK and the EU will retain major common needs for close co-operation, for instance in fighting crime and terrorism. We should strive to maintain the most cordial of relations.

The EU market for UK exports has declined over the last four years. In or out, we will need to look elsewhere for growth. Our pre-accession Commonwealth markets have grown faster than the EU since the UK joined the then Community in 1973. In 30 years, India alone is likely to be a larger market than the entire EU.

Changing course is never easy. But this is a nettle we should grasp. We may not have another chance in our lifetime.

Kate Hoey is the Labour Member of Parliament for Vauxhall.

3 May 2016

Escape Brussels, save 4% of GDP

Democratic process, economic progress

Patrick Minford in Cardiff

Many British citizens want self-government again, as they had for hundreds of years before the ‘common market’ they joined became a European super-state on the way to ‘ever closer union’.

This seems reasonable. Under the rules of British democracy, citizens are always able to eject the government through a general election. However, whatever they do about the elite that governs the European Union, they can never get rid of it or change its decisions.

This is seen as the political case for Brexit. But in truth it is as much the economic case. Not being able to learn from economic mistakes or compel rulers to revise their policies is a serious problem of political economy. For all its faults, the UK democratic process is a better mechanism for economic policy progress, as reform programmes since 1979 have shown.

My research on the European economy points to major costs associated with staying in the EU*.

The EU is a customs union that erects a tariff and non-tariff wall around EU member states. This customs union is highly protectionist and raises the prices of protected goods, including agriculture and manufactured goods. Far from being a free market ‘paradise’, the EU market has prices well above world prices, and twists the shape of our economy towards these protected goods.

Consumers pay excessive prices for much of their shopping basket. Because we buy more from the rest of the EU than we sell back at these inflated prices, some of this price excess goes straight into the pockets of industry in the rest of the EU. This loss of free trade overall costs us around 4% of GDP.

Trade costs are just the start. EU regulations are the result of lobbying by major industries and trade unions in Brussels, and of the ‘qualified majority’ views of other EU governments, which usually oppose UK thinking. Whether one looks at climate change and energy, finance, labour market rules, or any of the myriad details of industrial standards, one finds numerous ways in which these deviate from what the UK would put in place.

It is said that we would have to keep these regulations if we were to continue to export to the EU, but this is manifestly false. Our goods exporters, which account for 10% of UK GDP, would have to adhere to EU rules for imported goods. But the other 90% of the economy would not. EU regulation, if pushed hard to suit the qualified majorities of EU members, could cause massive damage to our economy – and it has already had a serious net cost. To these estimated costs we need to add the ‘dynamic’ costs of these regulations in discouraging growth. EU growth has slowed in recent decades and our growth could go the same way.

Last but not least there is the political problem of migration. It makes both political and economic sense to have an overall limit and make it non-discriminatory across all immigrants.

I will be voting to leave on 23 June – for Britain to once again become a self-governing country trading globally with home-produced regulations and full control of its borders and economy.

*Patrick Minford is Professor of Applied Economics at Cardiff Business School. *Should Britain Leave the EU?: An Economic Analysis of a Troubled Relationship, by Patrick Minford and co-authors Sakshi Gupta, Mai Le, Vidya Mahambare and Yongdeng Xu, second edition, 2015.*

5 May 2016

Lessons of 1776

Flawed reliance on Treasury's so-called facts

Brian Reading in London

George Osborne, the UK chancellor of the exchequer, has claimed as a 'fact' that British departure from the European Union would cost British families precisely £4,300 each by 2030. Osborne is wrong. There are no facts about the future, just good or bad forecasts. His are based on extremely debatable methodology. Anyone relying on the Treasury's so-called facts to guide them in their voting on 23 June will go astray. The prediction by Mark Carney, the Bank of England governor, of a possible recession if the UK quits is similarly faulty.

Osborne's claim to have presented 'rigorous and objective' analysis to reach 'robust' conclusions is exaggerated. The Treasury, in its 200-page analysis of Britain's EU membership published on 18 April, cherry-picked its arguments against Brexit. It ignored reasonable contrary opinions, without demolishing unreasonable ones. It claimed needles in haystacks cannot be there because they have not been found. Even single paragraphs contain contradictions (for example: EU regulations are beneficial and the UK has succeeded in reducing EU regulations.) The Treasury study is demonstrably biased to support government policy.

One big problem is that the analysis explores no more than the consequences of Brexit on British exports and inward foreign direct investment. Properly defined terms of reference would have stated that the report excludes the impact on British imports and outward FDI, as well as the impact on the rest of the EU.

There are several other defects. The report asserts, 'There is no precedent for the UK leaving the EU.' Yet it cites alternative precedents. It says, 'No other country has been able to negotiate any other sort of deal and it would not be in the EU's interests to agree one.' No evidence is produced to support where EU interests in negotiating a deal might lie.

The UK is the world's fifth largest economy, the fifth largest importer and the largest destination for EU exports, well ahead of the US, Japan and China. The Treasury claims that the EU, because of its size, has a stronger hand in trade negotiations than the UK acting alone. By the same token the UK has a strong hand in its EU exit.

Brexit opponents frequently argue that UK exports to the EU are a larger share of UK GDP than imports from the UK are as a share of EU GDP. That is always true when comparing any country's export/GDP share to a region or the rest of the world's import share from it. British EU exports must exactly equal EU imports from Britain. Those affected by trade gains and losses do not dismiss them on account of such regional GDP share differences.

The EU is negotiating the Transatlantic Trade and Investment Partnership with the US. The Treasury claims it is a done deal that brings the EU considerable advantages; following Brexit, the UK would be excluded and this would be a cost. None of this is proven. For example, the majority of German multinational companies, but only a minority of German consumers, are in favour. It will be difficult, if not impossible, for Germany to ratify such a deal.

The Treasury argues, correctly, that 'openness' to trade promotes productivity, GDP and income growth. These are the advantages Adam Smith first described in 1776, the year of the American declaration of independence. The 13 states were fully aware of the consequences for trade and capital flows from Britain. They preferred making their own laws rather than obeying those made in London. This decision did not impair their long-term prosperity. The colonies rejected British appeasement offers. They faced severe short-term costs, including the Revolutionary war that they won.

No one today would argue that the American states would have been better off remaining UK colonies. In a few years, long after the flawed Treasury report has faded from memory, no one will claim that the UK would have been more prosperous by staying in the EU.

Brian Reading was an Economic Adviser to Prime Minister Edward Heath and is a Member of the OMFIF Advisory Board.

13 May 2016

A battle over government and identity

Puncturing the myths over Britain leaving the EU

Norman Lamont in London

Britain's European Union referendum is partly about economics, but it also involves big issues of security, accountability and democracy. It's part of a long-running unresolved constitutional debate about the government and identity of the UK. Many deeply flawed arguments are put forward for Britain to stay in. On 23 June, I shall be voting for 'Brexit'.

The UK's security depends above all on factors beyond EU influence. Nato, a military alliance between sovereign countries, was created to meet the challenge of a Europe at war. It's a myth that the EU, rather than Nato, has brought peace to our continent since 1945. Moreover, most of the hundreds of thousands of British citizens who gave their lives in the second world war believed they were fighting for their own country and its sovereignty.

Some argue that leaving the EU would imperil Britain's ability to co-operate over intelligence and terrorism. Beyond the differing opinions, the truth is irrefutable: Britain's counter-terrorism machine is the envy of the world, well beyond what the EU can offer.

The reasons behind President Barack Obama's campaign to keep the UK inside are simple. Britain is America's best friend in the EU. On most economic questions such as free trade or dealing with the financial crisis, Britain's views largely accord with Washington's. If the UK left, that would weaken America.

Many people say Britain must voice its views within the EU to help shape Europe's development. Prime Minister David Cameron probably got as good an EU deal as anyone could. But whatever barriers Britain erects against integration, the EU will always find ways around them. Look how the European Court of Justice undermined the UK opt-out from the charter of fundamental rights.

EU supporters say you have to be in the EU to trade with it. That argument is wrong. There isn't a high tariff around the single market. Switzerland is not in the EU and it exports more per capita to the EU than the UK does. US exports to the EU, since 2011, have been higher than Britain's.

The G20 communiqué suggesting Brexit could lead to a world economic 'shock' may have worried voters. Yet any effect on confidence will be short term. And remember that the G20 includes not just four EU members but also the EU itself. After the long crisis over the euro – an undertaking that has caused Europe immeasurable economic and now political damage – it is presumptuous for the EU to talk about 'shocks' to the world economy.

I was appalled at the way the euro area treated Greece. This is not to excuse past Greek mistakes, but the counterproductive austerity imposed on Greece ignored the vote of the Greek public in an election and in a referendum.

In important areas, EU membership has seriously compromised the UK's parliamentary democracy too. The campaign group 'Business for Britain' concluded that, out of 20 directives imposed on the City's financial markets, the UK on its own would not have adopted 10 of them. There are many other drawbacks to the EU's influence: restrictions on Britain's VAT legislation, the European Arrest Warrant, and the European External Action Service, a gigantic bureaucracy with embassies around the world, even though Europe can't agree a foreign policy.

Britain hasn't had a referendum for 40 years. During that time the EU has profoundly changed. I have found it extremely painful deciding which way to vote, not least out of respect for the prime minister. But I have come to the view that, in this once in a generation opportunity, Britain should vote to leave.

Lord Lamont, a former UK Chancellor of the Exchequer, is a Senior Adviser to OMFIF.

17 May 2016

European show will go on

Why some Dutch want the Brits out

Roel Janssen in Amsterdam

The Netherlands has always been strongly in favour of British membership of the European Union and (before) the European Community. Though on many issues – the euro, refugees, defence – the Dutch work more closely with neighbouring Germany, Britain is considered an indispensable counterweight to balance Germany and France.

The UK is the Netherlands' second largest trading partner after Germany – accounting for almost 4% of Dutch exports, providing about 300,000 jobs. No wonder the Netherlands employers association says, 'Brexit will produce only losers.'

The Dutch see themselves as a bridge between the UK and the Continent. According to Mark Rutte, the Dutch prime minister, who holds the six-month EU presidency, 'For the Netherlands, UK membership remains vital, because the UK is one of the few EU countries which is market- and growth-orientated – and we need that outlook.'

Others see things differently. Geert Wilders, leader of the anti-EU, anti-immigrant and anti-Muslim party PVV, advocates UK exit: 'Brexit would create enormous incentives for others to follow.' At the other end of the spectrum, some pro-European Dutch also want the British to leave – to pave the way for more European integration, even though they know this would be an uphill struggle.

Euroscepticism is relatively new in the Netherlands. In 2005, the Dutch voted No to the European constitution. Last month, in another referendum, the Netherlands rejected the EU association treaty with Ukraine, showing deep misgivings about Brussels among much of the population.

Encouraged by the Ukraine result, Dutch eurosceptics are already envisaging a 'Nexit' referendum if Brexit takes place. 'If the Brits decide to leave, this will be a seismic shock, also for the Netherlands,' a former Dutch ambassador to the EU warns.

Rutte, leader of the conservative VVD, considers himself a friend of David Cameron, the UK prime minister. He helped broker the February deal with Cameron on Britain's EU membership demands. A lot of these overlap with Dutch interests. The government and opposition in The Hague broadly support subsidiarity, strengthening the role of national parliaments, restricted access for EU migrants to social benefits and limits on the centralisation of EU power in Brussels.

On the contentious issue of 'ever closer union' Rutte has used the famous Monty Python phrase to term it 'a dead parrot'. Rutte has suggested that, if Britain leaves, the EU should implement for all other EU members the results negotiated with Cameron. All the same, Rutte says Brexit would hurt the Brits themselves. 'If the UK decides to leave, Britain will turn into a medium-sized economy in the middle of the Atlantic ocean, playing a much smaller role on the world stage.'

Jeroen Dijsselbloem, Dutch finance minister and chairman of the eurogroup of finance ministers, predicts Dutch companies could move their headquarters from Britain to the Netherlands if the UK leaves. Banking group ING has announced it will pull back some London staff to Amsterdam if that happens.

Many pro-European Dutch follow the UK debate with growing resignation. 'Let's get it over with, let them leave, and see what happens.' They see Brexit as showing eurosceptics from the Netherlands and elsewhere the serious consequences of leaving the EU, even for a major country. Liberation from the British could catalyse the rest of Europe.

Many Dutch are fed up with Britain's perennial scepticism and self-righteousness. The UK's permanent opt-out from fundamental policies like Schengen and the euro, and blockage of progress on financial regulation and other contentious issues, are sources of irritation.

If Britain says No, this could prompt the EU to accelerate further integration with a European 'coalition of the willing'. The day after Brexit, Rutte will undoubtedly emphasise that the European show will go on – without the Brits.

Roel Janssen has covered economic and financial affairs, fiscal policies and the euro for NRC Handelsblad, a leading Dutch daily newspaper, for more than 30 years.

18 May 2016

Avarice of strangers

Don't overstretch current account analysis

Brian Reading in London

The balance of payments – which looms large in the debate over Britain's membership of the European Union – is double-entry book keeping. A current account deficit always equals financial (and capital) account inflows. A floating exchange rate clears the currency market.

Either financial flows or the current account deficit can be in the driving seat at any one time. When financial flows dominate, sterling appreciates and the current account worsens. Sterling has been reasonably firm in the last year or so because capital has been flowing into the UK, seeking a sound home for restless and insecure savers.

What is not so evident is that a sizeable component of these sometimes destabilising foreign capital inflows can comprise, under the UK's statistical system, the category of 'foreign direct investment' – a form of inflow often thought of as being wholly benign to UK economic performance, but which can often turn out to have malign effects.

Britain's record current account deficit last year of 5% of GDP shows how inflows have been the dominating influence, leading to economic imbalance. Whether the UK stays or goes after 23 June, the direction of causation is likely to reverse and sterling will fall (and possibly collapse) in coming months until cheap assets attract sufficient inflows. The current account then would improve.

The statistical measurement of large foreign direct investment flows into the UK – which play a major role in financing the deficit – contains many elements of financial transactions that would not normally be counted as long-term investment.

Referring to such deficit-offsetting inflows, Mark Carney, governor of the Bank of England, erroneously said in January that the UK has to rely on 'the kindness of strangers' to finance this unduly large deficit. Rather than 'kindness', the shortfall is in fact plugged by the 'avarice' of strangers seeking enhanced returns from investing in a dynamic economy.

Most people suppose that FDI is physical investment in new businesses and factories. But this is not how FDI is measured in official British statistics.

Direct inflows are measured by the extent to which they increase foreigners' financial claims on the UK. Other inflows are labelled as portfolio (foreigners' purchases of UK stocks and bonds), banking inflows, trade credit and financial derivatives. The distinctive feature of FDI from all others is the creation of a long-term commitment.

The issue of how the money flows in is difficult to gauge. This can be determined only in retrospect, if and when it flows out again. Any foreign equity purchase of at least 10% of voting share in a UK enterprise (nearly always too small for control over investment plans) is defined as direct investment. Any subsequent retained earnings are allocated to direct investment pro rata with stakes. In some cases loans and trade credit to subsidiaries are included.

None of the FDI data directly measures physical capital investment in the UK through factories, plant, machinery, shops and so on. FDI can increase, diminish or leave unaffected physical capital. The Sunderland car factory established in northeast England by Japan's Nissan has, for example, demonstrably increased jobs and investment in the area and helped the rebirth of the car industry across the whole of the UK. At the other extreme, US food company Kraft took over Cadbury and closed its Bristol factory. Tata of India has invested heavily in Jaguar and Land Rover. But its takeover of Corus, the old British Steel, ended in tears for the UK steel industry.

French and German ownership (sometimes through state-owned companies) of UK transport, services and utilities business has been blamed for price hikes faced by British consumers. Foreign companies can exploit control of UK enterprises to avoid UK taxes. Distorted transfer mispricing between related enterprises and parent companies can shift profits offshore at the expense of the investment recipient.

Analysing balance of payments and foreign direct investment data has a role in the debate about Britain and Europe. But no one – including the governor of the Bank of England – should overstretch the arguments.

Brian Reading was an Economic Adviser to Prime Minister Edward Heath and is a Member of the OMFIF Advisory Board.

23 May 2016

Britain's risks are in staying, not leaving

Dysfunctional euro demands treaty change

David Owen in London

Back in 1971, the UK government 'white paper' on entry to the European Economic Community drawn up under Prime Minister Edward Heath misleadingly promised 'no erosion of essential sovereignty'. That was untrue then and is much more so today.

European law overrides British law. In his negotiations to try to improve Britain's conditions, David Cameron, Heath's successor nearly half a century later, has failed to achieve any treaty amendment to change this. The threadbare 'concessions' Cameron has won on access to the single market for UK companies outside the euro are not legally watertight, because they do not and will not form part of a new European treaty.

Cameron has unambiguously shown the futility of attempts to gain significant EU reforms. That's why I shall be voting No on 23 June. Departing would bring many positive changes. Britain could make its own laws again in its own parliament. The British can rediscover the skills of international diplomacy and rise to the challenge of global markets. This could be the spark we need to re-energise our nation.

I welcomed the vision of a Common Market when in 1962 the UK first broached membership. Nevertheless, Hugh Gaitskell, then leader of the Labour Party, rightly warned of a federal Europe ahead. We now realise that, in the EU, you cannot be partly a country and partly not a country. The euro's logic demands a full political union. Britain doesn't want to be part of it. So it's better if we leave.

Within a monetary system, politics and economics are fundamentally intertwined. Because I saw the pitfalls, I was one of the ministers in James Callaghan's government in 1977-78 who succeeded in keeping Britain out of the European exchange rate mechanism, the forerunner of monetary union.

Yet necessary euro area integration is on hold – intensifying the EU's problems. It is puzzling why a country like Germany, which says it wants to complete the euro, doesn't appear to be prepared for substantive treaty changes in any reasonable timeframe. On a visit to Berlin in January, I found no support from government officials even for the rather half-hearted integration timetable in the EU's 'five presidents' report last year. Germany seems prepared to wait until 2025 to see further meaningful integration, after an intergovernmental conference and full ratification procedures.

A Europe displaying this lack of drive will run out of time, with possibly disastrous consequences. The euro is in a limbo. And the reason is because European citizens manifestly do not want the full-blown integration that the euro's further development, indeed survival, requires. This reflects the popular disillusionment seen in every EU member, a product of high unemployment in countries unable to devalue, continued austerity, and structural inertia within an EU that resists change.

I don't see why the 'leave' campaign should outline a detailed blueprint for future plans. Not the 'leavers', but rather Cameron, launched the plan for departure, with his referendum project unveiled in January 2013. So the onus is on Cameron, not on those who are opposing him, to provide detail on how continued EU membership can benefit Britain. Likewise it is laughable for Cameron, having opened the referendum route, to pretend that staying in is the only answer because the alternative of departing would lead us to catastrophe.

For British security in its deepest sense – economic, political, military and social – remaining in dysfunctional EU, dragged down by a failing euro, is, I believe, a dangerous option. Remaining in the EU is more risky more than leaving.

Lord Owen is a former UK Foreign Secretary and a Member of the OMFIF Advisory Board.

24 May 2016

Treasury adopts Newton's theory

Exaggerated forecasts of UK downturn

Brian Reading in London

The UK Treasury this week has produced a report saying a vote to leave the European Union on 23 June would produce 'an immediate and profound economic shock creating instability and uncertainty which would be compounded by the complex and interdependent negotiations that would follow'. The document says this would increase unemployment by around 500,000 and reduce GDP by at least 3.6%. Average real wages would be lower, inflation higher, sterling weaker, house prices would be hit and public borrowing would rise, it says.

Having looked at the methodology, I could hardly stop myself laughing. It is as bad as or worse than using Newton's gravity theory as an instrument of economic forecasting. I am not surprised that the estimable Charlie Bean, the former Bank of England deputy governor called in by the Treasury to review the assessment, put his name to it. He has used and contributed to forecasts based on the same methodology.

Undoubtedly the referendum adds to uncertainty. Yet inspecting the chart for growth and uncertainty – based on a Treasury-constructed 'composite index of uncertainty' – I find the Treasury's conclusions of a causal link between heightened uncertainty and lower growth deeply flawed.

In the two cases studied – the early 1990s recession and the steep downturn in 2008-09 associated with the financial crisis – either there is no correlation or, more likely, the causality runs in the opposite direction, with falling growth generating uncertainty rather than the other way around. Following the 2000 bursting of the dotcom bubble, uncertainty peaked and UK GDP rose 3%.

To suggest a two-year period in which GDP could fall by either 3.6% (in a 'shock scenario') or 6% ('severe shock scenario') must be a gross exaggeration.

The scale and impact of the uncertainty have been analysed using a vector autoregression (VAR) model to identify the effect of increased uncertainty on economic activity. However the VAR model, and the application of the NiGEM global economic model developed by the National Institute of Economic and Social Research, are both suspect.

The period analysed using VAR starts in 1998 and covers the 2008-09 recession. The Treasury's 'composite index of uncertainty', based on survey evidence including the number of references to uncertainty in the media, implied volatility for the FTSE 100 and of sterling and so on. I have no objection to this.

But all current uncertainty is attributed to the referendum. A future level of uncertainty is simply assumed. Moreover, the Treasury is basing its findings on acceptance of its own flawed predictions for the long-term effects of Brexit to 2030. Surely 23 June cannot be the only factor the Treasury believes affects uncertainty? Or that there is no uncertainty about its own forecasting record?

The effects of uncertainty on growth is based on another model which has seven other variables – including VIX for the FTSE 100 and S&P 500. Again I would question the validity of such criteria, since we all know the stock market can amplify and distort expectations about actual economic developments.

British membership of the exchange rate mechanism was significantly responsible for the UK's 1990 recession, while the global financial crisis led to the 2008-09 recession.

It is mystifying why the Treasury has allowed itself to be misused in what appears a blatantly political way. The forecasts seem about as accurate as the predictions by John Major, then prime minister (relying on Treasury advice), in early September 1992 on the harmful consequences of sterling devaluing or leaving the ERM.

Just over a week afterwards, sterling was outside the ERM. The consequences were almost entirely benign. I suggest that, if the UK leaves the EU after 23 June, history will repeat itself.

Brian Reading was an Economic Adviser to Prime Minister Edward Heath and is a Member of the OMFIF Advisory Board.

26 May 2016

Responding to incentives

UK can thrive outside EU

John Mills in London

Of course there will be transitional problems if the UK votes to leave the European Union on 23 June. But we need to look to the longer term – where will the balance lie then?

Following 'Brexit', the UK would no longer pay the EU £11bn a year net of all rebates. It would gain much better control over its borders. It would not be tied so closely to a part of the world growing much more slowly than the world average. And it would not become part of a continent-wide federation that almost no one in the UK wants.

These, in my view, are the upsides to leaving. But what of the downsides?

Many of the arguments on the advantages and disadvantages of the UK's EU membership are disputed. Would Britain be safer in or out of the EU? Better at negotiating trade treaties? More secure militarily? More prosperous? It depends on the assumptions you make. If they are pessimistic, so are the outcomes, and vice versa.

Much of the referendum debate has been on the economic consequences of Brexit. If the UK departed, there would be a period of uncertainty. This could cause GDP to dip temporarily. If the economy turns down in the months following the vote, Brexit is likely to have been a minor influence compared with other factors such as adverse global economic trends and huge imbalances in the UK economy, not least a burgeoning trade deficit.

How well Britain does after voting to leave is more likely to depend in the short term on the policies the UK pursues in respect of maintaining open borders for trade, and on monetary, fiscal and exchange rate policies to help rebalance the economy.

Once the initial transitional period is over, there is no reason to believe the UK should not do at least as well economically, if not better, than if it had remained in the EU. A deal maintaining free trade in goods between the UK and the rest of Europe is extremely likely – preserving the conditions that apply to countries across the continent, whether they are EU members or not.

The situation in respect of services – already more restrictive than for goods because of non-tariff barriers – may be more complicated. But the City of London thrived after the UK opted not to join the euro despite what most of the establishment said at the time. The City has huge advantages compared with other financial centres in Europe and no doubt will adapt and prosper as it always has.

It is easy to talk down the UK's economic resilience and resourcefulness. But people everywhere, including in the UK, respond to incentives. Provided we get those right, there is no reason to believe Britain cannot thrive outside the EU.

There are 168 countries in the world outside the EU and 28 inside. Many of those outside are doing much better than the EU average. There is no reason, if we join them, why we cannot do the same.

John Mills is Founder and Chairman of JML and Co-chairman of Business for Britain.

29 May 2016

Europe's hopes and failures

'Brexit' requires more nuanced debate

Ray Kinsella in Dublin

The people who chafe at intervention by Brussels in the affairs of European Union member states are by no means confined to the UK. Others observe that European policies in the political domain, as well as in monetary policy, have self-evidently catastrophic effects. The Brexit debate is much deeper, and more nuanced, than often suggested.

A little exaggeration can season an argument. But it serves no purpose to present one side of the argument using such terminology as 'quitter Brits' who resent losing sovereignty to 'unelected eurocrats'. In fact, member countries have begun to rein back sovereignty in areas such as the Schengen agreement. This underlines the extent of Europe's political failures and divisions. Respect for these different perspectives, as well as the historic nature of the decision, requires more reflective consideration and a different kind of language.

The values-based aspirations of what was originally the European Economic Community are widely acknowledged. But there is robust evidence that values like subsidiarity and solidarity have long been emasculated, as seen in the sorry case of Greece. Equally, it was never envisaged that the European Community would transform itself into an unwieldy hegemonistic super-state wholly at variance with its foundational principles. But it has. Power – and trade surpluses – are firmly located at the centre.

The democratic deficit in Europe – encapsulated, if imperfectly, by the term 'unelected bureaucrats' – continues to grow. Political dissent to the prevailing orthodoxy is caricatured as 'populist' or 'extremist'. But this is not so. Those arguing against the creed of ever greater integration are not causing instability. Rather they are an expression of the divisions and fragmentation across Europe, and the costs and consequences of structural and political failures.

European Central Bank policy is creating deep distortions in global banking and financial markets, further exacerbating the structural problems of a flawed and imbalanced monetary union.

If the matter were being debated in the UK parliament there would be a strong argument (with which, I have to say, I agree) that Mario Draghi, the ECB president, should consider whether he should stay in his post. But of course it's not – and he won't. He will continue in his post, insisting 'there are no limits' to what the ECB will do in pursuit of its present policy. Still, the point stands: can it be right to cling to counterproductive policies driving countries apart?

Europe has neither the capacity nor the political will to reform. It's gone beyond that stage. As in a dysfunctional relationship between a married couple, there is a time to let go – and to rebuild.

All of this must give even the most ardent europhile pause for thought – especially following the decision to outsource the refugee crisis to Turkey, employing large funding and 'fast track' membership of the Union. That strikes at the very heart of what Europe is about.

One is reminded of John Maynard Keynes' reputed retort: 'When my information changes, I alter my conclusions. What do you do, sir?'

It is worth recalling a notable episode in the history of British colonisation and its unravelling: Singapore's integration into Malaysia in 1963 and its subsequent departure in 1965. Despite the initial travail – as there would be, no doubt, were Britain to leave a deeply conflicted EU – both Malaysia and Singapore have prospered and no doubt will continue to do well. There are wider lessons there for British voters to ponder.

Ray Kinsella is Professor of Banking and Finance at the Michael Smurfit Graduate School of Business.

30 May 2016

Outside the EU, await Nike swoosh

Brexit makes economic as well as political sense

Gerard Lyons in London

There is a strong, positive economic case for Britain leaving the European Union. Two years ago, as economic adviser to the Mayor of London, I carried out a detailed report, 'The Europe Report: A Win-Win Situation', looking at the relationship between the UK and the EU. Although the focus was on London, its results could apply to the whole of the UK. It found that business attitudes towards the EU varied considerably, by size of firm, sector and according to their business model.

Many firms were unhappy with EU trade deals. These were too few and too slow to be implemented; UK demands were made as only one of 28 countries; services rarely featured.

The report analysed the economic outlook, based on four scenarios, over two business cycles. The best two scenarios, by some margin, were to be a member of a truly reformed EU, or to embrace a global trade outlook under 'Brexit'. A distant third was remaining, as now, in an unreformed EU. The fourth, by some way, was to depart, but in an insular fashion, retaining tariffs and regulations.

In economic terms, what matters for Britain it is not just whether we are in or out, but the type of policies we adopt.

In the campaign ahead of the 23 June vote, something odd is happening. Every economic debate always has two sides to it. Yet this time the misleading impression has arisen that this issue only has one side to it: to remain in an unreformed EU. This is clearly wrong.

Three issues stand out. First, staying in brings considerable uncertainty. The UK would be tied to the slowest-growth region of the world economy. Moreover, the euro is as unstable now as it was at the time the UK decided not to join. It feeds a deflationary mentality within the EU, contributing to weak demand and high unemployment. Unfortunately, the EU seems unlikely to reform and instead appears focused on the aim of ever closer political union.

Second, leaving the EU generates great economic benefits. It will allow the UK to restore democratic accountability, trade freely, position itself globally, raise living standards, adopt a non-discriminatory migration policy, better spend the money now absorbed by its EU contribution, safeguard the City of London, and become more innovative and attractive for future investment and jobs.

Third, the 'groupthink' that has gripped the economics profession on this topic doesn't mean the consensus is right. The consensus was wrong over the financial crisis, the euro, and sterling's exit from the European Exchange Rate Mechanism. Moreover, most of the major forecasting groups appear to use the same trade model and make the same misplaced assumptions about policy after Brexit.

The EU is a customs union. It is anti-consumer and protects certain industries, favouring big business. This results in higher prices within the EU in the protected areas, the clearest example of which is agriculture, leading to high food prices.

After Brexit, nothing immediately changes with trade for the first two years. But then there are many options. These include trading without tariffs under World Trade Organisation rules, being part of the free trade area that stretches across the whole of western Europe, or following in the footsteps of others and creating the UK's own trade deals.

The reality is that a country doesn't need a trade deal to trade. Britain doesn't need to be in the EU and its single market to sell into it.

In economic terms there could be some sort of temporary shock from leaving. I have described this as a 'tick' or 'Nike swoosh'; after some initial setback, the economy recovers well. So economics is on the side of Brexit. And this backs up the main argument for leaving, which is political: to restore democracy and complete accountability to Westminster and power to UK voters.

*Gerard Lyons is a Member of the OMFIF Advisory Board and former Economic Adviser to Boris Johnson, the Mayor of London. He is the author of the ebook *The UK Referendum: An Easy Guide to Leaving the EU*, available for download from Amazon as a Kindle Single.*

1 Jun 2016

Why we shouldn't heed Brexit myths

Learning from lemmings – and the Queen

Brian Reading in London

'Cry havoc and let slip the dogs of war.' Act 3, Scene 1, William Shakespeare's Julius Caesar. If we are to believe it, 'Brexit' does just that. In the European Union referendum campaign, neither the Remain nor the Leave camp has a monopoly on hyperbole. Whether in defence or economics, both are exaggerating.

First, let's deal with security. Since 1945 there have been at least 20 small and bigger wars in Europe plus civil wars and numerous uprisings and unrest. Wars have been confined and localised.

The EU's genesis dates back to the European Coal and Steel Community in 1951, followed by the Rome treaty which established the European Economic Community in 1958. The 1993 Maastricht treaty created the EU. British membership dates from 1973. It is hard to believe that non-membership until then increased the risk of a major European war and membership thereafter has reduced it. Likewise, to suppose that UK secession would be followed by civil war between EU member states seems far-fetched.

What are we to make of Russia? Under Vladimir Putin, it has become a rogue state. Following the Crimea invasion, his aggressive intentions are clear. Nationalism unites when things go wrong at home. But Brexit would not make the least difference to European resistance to such threats; within Nato, British participation in that resistance is certain.

A divided opposition might generate appeasement, making a major conflict more likely, as with Hitler. But, again, Brexit makes no difference to such divisions. If the EU falls apart following Brexit, the imperative to co-operate in many different fields will be enhanced, not diminished.

Next, let us look at the economic arguments. The Observer newspaper has polled some 3,500 'top' UK economists on the effect of Brexit. About 600, 17% replied. Nine out of 10 said British departure would damage growth. But the majority is not always right. That's a myth – another exaggeration.

Following the 2007-08 financial crisis, Queen Elizabeth asked, 'Why did nobody see it coming?' Those who did not see it coming – central bankers, finance ministers, most official and private forecasters (except the Bank for International Settlements) – immediately agreed: the event was indeed unforeseen!

In fact, some economists (and I count myself among them) did see it coming. Quite a few of us were alarmed by sub-prime mortgages and collateralised debt obligations which turned toxic debt into triple-A packages. But the overwhelming majority of the 'great and the good' were seduced by the belief that the 'great tranquility' or the 'goldilocks economy' would last forever. Some even argued that securitisation would eliminate systemic risk. Sweet dreams.

Similarly, a letter to the Times from 364 economists in 1981 claimed that Chancellor of the Exchequer Geoffrey Howe's austerity budget during an inflationary recession was a disaster. The media supported them. Michael Foot, the Opposition leader, declared Howe's budget would drive up unemployment to more than 3m.

In fact, Howe's budget was a victory for monetarists over the conventional Keynesians who had ruled the roost since the 1930s depression. These nightmares turn out to be just that, no more than bad dreams. The economy recovered.

Economists are not always wrong. In May 1930, 1,028 US economists signed a petition against the Smoot-Hawley Act raising tariffs on 20,000 imports to record levels. Republican President Herbert Hoover refused to veto the Act. US imports fell by half, exacerbating global depression.

This is not an argument always to distrust conventional wisdom. But often the term is oxymoronic. One must be sceptical, and use one's own judgment and experience in making up one's mind. Lemmings jump over cliffs. They must be right when all others are doing so. Mostly they are wrong.

Brian Reading was an Economic Adviser to Prime Minister Edward Heath and is a Member of the OMFIF Advisory Board.

2 Jun 2016

Vote Leave to take back power

Disaster of EU's defining projects

Bernard Jenkin in London

The UK joined what was called the Common Market 43 years ago for trade and friendship, not to become absorbed into today's unaccountable and undemocratic European Union.

Globalisation has changed the world. If the UK leaves the EU, it is in nobody's interest to go back to trade tariffs and protectionism. Who in the EU advocates that? Nobody. The rest of the EU sells far more to the UK than Britain sells to them. Free trade is in all our interests.

Prime Minister David Cameron himself says today's EU is too big, too bossy and costs too much. The British government paid the equivalent of one fifth of the UK's defence budget to the EU last year. The EU gives back less than half.

Outside the EU, the UK could pay for everything funded by the EU in the UK, and still have another £9.9bn to spend on the National Health Service or science research every year, instead of subsidising its EU competitors. Britain's trade deficit would be cut by one fifth. 'Brexit' would be good news for the economy.

If the UK votes to leave, European courts will no longer be able to stop the deportation of terrorist suspects and foreign criminals. Britain will take back control over its borders and immigration policy. It will be able to make new trade deals with growing countries like China and India. It will regain its place on key bodies like the World Trade Organisation, where real decisions are made, instead of being represented by some EU official. The UK will regain influence.

Remain protagonists would have us believe the prime minister's February renegotiation of Britain's EU membership terms was a triumph. But the deal has been exposed as a bad one. The European Court of Justice can overrule it, so it is not 'binding and irreversible'. It does not change the treaties at all. It takes away the UK's veto on future euro area treaties. Britain does not take back national control over its laws and borders.

Nobody really likes the EU any more. The EU's two defining projects, the free movement of people and the euro, have proved disastrous – a free travel area for illegal migrants and terrorists, and a permanent economic crisis inflicting hideous rates of unemployment.

The EU never learns from its mistakes. Last year's 'five presidents' report on the future of the euro opens with the laughable words, 'The euro is a successful and stable currency.'

Rather than reinstating national frontiers, they want more power to set up an EU border force. Why vote to remain in an EU when we reject its main purposes?

The government has already resorted to 'Project fear'. But threats of migrant camps in southern England or massive job losses make Remain backers look like harmless Wizards of Oz, rather than serious statesmen.

Many politicians used to claim the UK would lose jobs and investment if it stayed outside the euro. They were wrong before, so why believe them now?

Ask the real question: what will the EU be like if the UK votes Remain? Experience shows it means being forced to give up more money and power to Brussels every year. This is a journey in which I and many others do not wish to take part.

Bernard Jenkin is Member of Parliament for Harwich and North Essex.

6 Jun 2016

Leaving is liberation

UK business opinion moves towards exit

John Longworth in London

No wonder support for Britain's European Union membership among small and medium-sized businesses is crumbling. Opinion is moving in favour of Leave among business owners no longer cowed by self-serving multinationals and big business lobby groups like the Confederation of British Industry.

A survey by my old employer, the British Chambers of Commerce, in May showed a 7 percentage point increase in the number of businesspeople supporting Leave – to 37% – compared with a previous survey in February. Of the firms trading only in the UK, a majority now favour leaving, as do those who export only outside Europe. Roughly 95% of UK businesses fall into one of these two categories.

It is fantasy to suggest the UK can change the EU system from the inside. Britain's vaunted 'influence' in Brussels has failed for decades. If it votes to stay, its bargaining power will be spent.

Britain will be liberated and will thrive outside the EU. It will be able to design sensible regulations that suit its economy and for which the British people can hold their elected representatives to account. Businesses will benefit from less red tape and from the UK's enhanced control over its borders. It will be easier to manage current chaotic immigration from Europe and welcome skilled people from the rest of the world.

Europe will want to continue trading with the UK. Britain's deficit with the Union is at record levels – £68bn last year and £24bn for the first quarter of this year alone. Businesses in France, Germany and the Netherlands will not allow the eurocrats to shut the door on their best customer.

Bearing in mind the average external tariff for goods in the single market is just over 3% – a rounding error in a currency movement – the UK will not relinquish any of the competitive advantage it will gain by leaving a trade arrangement of marginal benefit.

Britain will be in a wonderful position to reach trade deals with other countries like the US, Australia and India, rather than have to depend on the sluggish Brussels machine, which has to cobble together a lowest common-denominator negotiating position among 28 countries. Others have reached trade deals with the largest economies in the world in rapid time – less than 24 months.

The UK will be free of the risk posed by an avalanche of regulation from Brussels as the euro area consolidates. The uncertainty created by an unstable euro would be the greatest brake on growth if the UK remains in the EU.

The UK doesn't want to be dragged along with extra costs and regulations as Germany seeks to prevent the euro area from falling apart at any cost.

If British businesses want a successful global future, they will be better off if Britain leaves the EU.

John Longworth is Chairman of the Vote Leave Business Council.

11 Jun 2016

Better outside the EU

UK will still be great trading partner, friend and ally

John Redwood in London

The likelihood of the UK voting for 'Brexit' has increased the longer the campaign has gone on. This comes as no surprise. The Remain campaign has revolved around an increasingly shrill series of doom-laden, silly forecasts – depicting Britain's partners as vengeful and unpleasant countries who will want to damage their own trade and economies to harm us, should we dare to leave.

The Leave campaign, by contrast, has been upbeat, optimistic and global. We think the UK will still be a great trading partner, friend and ally of other European Union states outside the formal treaties.

We do not expect new tariffs or barriers to trade when we leave: the rest of the EU sells Britain so much more than we sell them, and you do not normally try to harm your customers. Both the UK and the rest of the EU will be members of the World Trade Organisation in any case, limiting most tariffs to low levels now in place.

Nor do we Leavers expect any kind of banking collapse, a sudden surge in interest rates or other economic damage. The Remain campaign forecasts a fall in the pound, which would make the UK a bit more competitive.

US interest rates and the strength of the dollar are likely to have a bigger impact on sterling and the euro than Brexit. Since February, as the polls have narrowed, the pound has gone up a bit and the costs of state borrowing have fallen considerably.

So why do so many UK people wish to leave? We think Britons will be better Europeans if we accept we do not want what much of the EU wants. We do not want to join the euro or the common frontiers, central features of the modern EU. We do not wish to join the wild ride to political union, as set out in last year's 'five presidents' report.

From inside the EU, Britain will find it increasingly difficult to insulate itself from the political and financial consequences of the euro. It would be wrong for the UK to block or delay the political centralisation the euro needs to succeed.

Britain will not be leaving Europe. It is and remains our continent, and we will wish to be active and engaged, doing so in a range of agreements with the EU and individual European countries. It means we can spend at home the £10bn net contribution the UK makes each year to the rest of the EU, creating jobs and boosting public services and incomes.

It means we can set up a fair system of migration control with the same rules for the EU and the rest of the world. Everyone legally settled in the UK prior to Brexit will be free to stay. We anticipate the same will be true for UK citizens living abroad, whom international law also protects from eviction.

Brexit would mean the UK can regain control of British taxes. The UK was always told that tax remained a national responsibility, but finds it cannot abolish a 5% tax on women's sanitary products.

Above all it means Britain can restore democracy. To us, living in a democracy means electing those who govern us. We can lobby and influence them between elections. We know who they are and they have to answer us directly. If they fail or cease to please, we can kick them out at the next election.

The UK's membership of the EU is like joining a football club, only to announce to the other members you do not wish to play or watch football and think the club subscription is too high. You would be better concluding the club is always going to annoy you and appear expensive, as you do not like its main purposes. It is better and more polite to leave.

John Redwood is MP for Wokingham, Chairman of the Conservative Economic Affairs Committee and a former Secretary of State for Wales.

13 Jun 2016

Vote Brexit, profit from lower pound

How to correct the current account deficit

Brian Reading in London

Remainers say a Leave victory will be apocalyptic. Stay in the European Union after the 23 June referendum, and the outlook is rosy. Brexiteers claim a positive scenario on leaving. Nobody sees that the prospects are dire whichever way the vote goes.

The British economy is unbalanced. This inhibits growth. Recession looms in the next two years. The issue is which option – ‘in’ or ‘out’ – is more likely to address unsustainable disequilibrium. My conclusion: ‘Brexit’ is a better way to address Britain’s imbalances. Remaining in the EU would make them worse until the next crisis.

UK Treasury forecasts, indeed almost all official forecasts, promise stable growth if a Brexit defeat restores confidence. The Treasury’s forecasting models remain Keynesian, paying lip-service to monetary factors. Financial balances and balance sheets are thought of as inconsequential. Treasury officials failed to forecast the 2008 crisis and subsequent recession. Perversely, they are sticking to discredited models.

The 2008 crisis was caused by households’ excessive deficits and unsustainable debt leading to deleveraging and depressed demand. Fiscal profligacy then shifted the excessive deficits and unsustainable debts to the public sector, borrowing demand from the future.

Retrenchment inevitably followed, with prudence subtracting the demand previously borrowed. Central banks took up the running with monetary profligacy. The aim was to encourage households and companies to borrow and spend again.

The success of the policy was to drive a wedge between inflated asset values and underlying economic fundamentals. The Office for Budget Responsibility’s March 2016 budget forecast assumed household debt would climb back to near its pre-crisis peak, ensuring continued moderate growth while the budget deficit was eliminated. This can’t and won’t work.

The large UK current account deficit is the problem. This represents foreigners’ financial surplus, the extent to which they lend the UK their excess savings to pay for their surplus products. As long as foreigners run a surplus, the domestic UK economy must run up debts. If the British government cuts its borrowing and spending by retrenchment, households or companies must borrow and spend more to maintain demand and growth.

Without a reduced current account deficit, the debt problem cannot be solved by transferring the borrowing elsewhere in the economy. There is a limit to building up foreign debts.

One way to reduce the current account deficit is to depreciate the currency to increase exports. The other means is to engineer a recession so imports fall. Greece, Spain and Portugal know this to their cost.

If Britain remains in the EU, this will encourage more financial inflows and buoy sterling. Monetary profligacy will continue. Domestic debt will rise further. The damage will be horrific. Monetary profligacy is undermining pension funding and banks’ balance sheets.

The inflection point comes when the current account deficit gets so large and domestic debt so onerous that confidence evaporates – which could have an explosive effect on the pound. What is needed, though, is a gradual sterling depreciation. Brexit would produce just that effect.

The currency may spike down in the first reaction to a Leave victory. But once the financial markets realise that Brexit does not bring the UK’s immediate and inevitable departure from the EU, sterling will bounce back as short-sellers take profits.

Fickle foreign investment is more of a curse than a blessing. One of the major reasons for the record peacetime current account deficit is a collapse in Britain’s foreign investment income – reflecting Britain’s superior economic performance relative to the anaemic EU recovery.

The pound’s depreciation will increase the sterling value of foreign income, another factor helping to correct the current account. Policy-makers and the electorate should welcome, not fear, sterling depreciation. Brexit is the way to achieve it.

Brian Reading was an Economic Adviser to Prime Minister Edward Heath and is a Member of the OMFIF Advisory Board.

15 Jun 2016

UK's one-off gain

Why Brexit makes economic sense

Andrew Lilico in London

The economic argument for 'Brexit' is not that the UK would make significant economic gains by leaving the European Union. Rather, it is that leaving would be close enough to economically neutral in its effects that strong geopolitical, constitutional, and self-determination advantages can be achieved without prohibitive economic cost.

The UK in economic terms has gained much from EU membership. By far the most important source of benefits has arisen in the form of influence via the treaties and the workings of the European Commission. Britain has converted its continental partners to an economic philosophy based around free trade, market liberalisation, privatisation, limits on state aid, competition, and the interests of small and medium-sized enterprises.

These are tangible and valuable advantages. They have created a regulatory and broad economic policy environment in Europe that is welcoming to British businesses. This is aligned with the way the UK regulates its own firms, and creates an openness that allows exports to the advantage of Britain's own importing consumers. At the same time, the UK has played its part in encouraging EU openness to globalisation.

These economic benefits from EU membership have been primarily one-off gains, stemming from UK success in converting its partners to its way of thinking and policy-making. This process is now complete. Inside the EU, the UK is a block on progress, preventing the euro area from making full use of its institutions to address governance issues.

It is implausible that the UK's European partners would turn away from it if Britain left the EU – at a time when a survey by the Pew Research Centre, discussed in an accompanying OMFIF Commentary, finds dissatisfaction with the EU rising across the continent. The Union's philosophy is embedded in its treaties. It will be very hard to change the rules of trade it has encouraged us to adopt.

Following Brexit, the EU would work better and grow faster – to the UK's benefit. In a dynamic world, the UK could take better advantage of its ability to reverse policy errors, allowing for more policy experimentation and innovation. In respect of trade, Britain can gain as much from new trade deals with non-EU countries as the modest losses it is likely to make in EU trade.

These longer-term gains will not come for free. In the short term, Brexit is likely to bring two or three years of somewhat slower growth. But by 2030 I would expect the UK to be more or less back to balance. It might even gain.

The UK has done a good job in converting its friends to converge in the British direction. Progress has been sufficient for Brexit's economic costs to be low. Over the longer term, this will more than compensate for losing the political and geopolitical benefits of EU membership.

Leaving the EU does not require economic justification. Staying does. Voters need only to believe the economic costs of leaving will not be too high.

Andrew Lilico is Executive Director and Principal of Europe Economics.

17 Jun 2016

Outward-looking beyond Europe

UK needs to think globally

Gerard Lyons in London

Just prior to the start of the referendum campaign, I decided to back British departure from the European Union. Like every economic debate, there are arguments on both sides. I think, unlike the consensus, there are some strong economic arguments for voting to leave. But this is primarily a political decision.

At its heart, the EU is a political project, aimed at much closer political union; it could become a United States of Europe. This is despite the EU having a democratic deficit. In contrast to the other 27 members, in the UK we see the issues largely through an economic and financial lens.

In 2014, I produced a detailed report for Boris Johnson, then mayor of London, looking at the economic and financial issues of our EU relationship – ‘The Europe Report: A Win-Win Situation’. It set out different scenarios, depending on policies chosen. For the UK, by far the two best options were to be in a truly reformed EU, or to be global outside the EU following ‘Brexit’. Both were far better than staying in an unreformed EU.

The report looked 20 years ahead, over a couple of business cycles. If one looks a couple of years ahead only, as is often the temptation, forecasts may be heavily influenced by the economic and political disruption of leaving.

The report showed business opinion was divided, by size of firm, sector and business model.

At the start of researching the report, I believed that, because of its size, the EU would be good for trade – yet the business representatives I consulted demurred. The EU was seen as being slow at trade deals. The UK’s demands were simply one of 28 countries. Services rarely figured.

The referendum campaign has focused my thoughts. To vote Remain is not to back the status quo. In political terms the EU will move towards ever closer union. I don’t think the EU will reform in the way it needs to. At its core is the unstable euro. A deflationary mentality drives the EU’s thinking, with high rates of youth unemployment and pockets of depression. This, in turn, has fed the rise of extremist parties.

All major forecasting groups expect the EU to be the world’s slow growth region in coming decades. Tying Britain to this system is a high-risk strategy. Instead the UK needs to embrace free trade outside the EU and think globally. After Brexit the UK can focus on pro-growth policies driven by increased investment, infrastructure and innovation. Services, the City and manufacturing can all play their part.

The referendum campaign has highlighted the need for a sensible migration policy. Migration is good for an economy, but the scale of current migration highlights the problems in the present approach. Two wrongs do not make a right. The first wrong is the inability to limit the numbers from the rest of the EU. The second wrong is that we then try to control this by discriminating against those from outside the EU.

The UK cannot blame all its economic problems on the EU. The UK has a large current deficit. We have not built enough houses for 40 years. We borrow too much and have not invested enough. These issues still need to be addressed.

In the modern era, talk of marriage and divorce is wide of the mark. It may not be a conscious uncoupling or an amicable split, but we would strive in our exit negotiations to have an open relationship with the EU, and a polyamorous one with other countries across the world.

Outside the EU the UK will be outward-looking. Through globalisation, technological change and urbanisation, economics knows ever fewer borders. Brexit can open the door for the UK to use its innate ability to adapt to new circumstances. By leaving the EU we can control and enhance our destiny in a world economy changing as never before.

Gerard Lyons is an international economist and a member of the OMFIF Advisory Board.

21 Jun 2016

Day of opportunity

EU will never see things Britain's way

Jack Wigglesworth in London

It's time the British recognise that the European Union can and will never see things their way.

This was evident in Prime Minister David Cameron's failure at the beginning of the year when negotiating with Donald Tusk, president of the European council, for a better deal for Britain and a reformed EU.

Cameron returned from Brussels claiming success, justifying a vote to Remain, despite the insignificant changes he achieved. He could have returned admitting failure and, therefore, recommending Leave.

If he got practically no results then, despite making the threat that Britain could depart, how can he possibly expect anything better now if the UK decides, after all, to stay on Thursday?

The stark choice is this. Either the UK exits – which I favour. Or we stay, and become embroiled in agreeing further European treaties and driving to ever closer union, all part of the EU's obsessive but impossible-to-fulfil desire to make the euro work.

The insistence of Cameron and George Osborne, the chancellor of the exchequer, to pursue the referendum is likely irrevocably to split the Conservative party and leave the issue festering whatever the result.

The conduct of the campaign has been very poor. When the British people needed sober facts and analysis, they were instead treated to ill-tempered, contentious and unprofessionally worded harangues fired daily at them from both sides.

The blame lies primarily with Cameron and Osborne, the Remain leaders, who realise they have been fighting for their political lives and historical reputations. Sir Jeremy Heywood, Cabinet secretary, should have controlled their excesses and stopped them from directing civil servants on a deeply political matter.

Boris Johnson and Michael Gove, the Conservative politicians heading the Leave side, were not much better. It was classic lies, damn lies and statistics, some based on views reached by the Treasury and delivered by establishment figures at home and abroad, all persuaded by the prime minister to fight his cause.

The underlying weakness of the analysis and arguments is that they rely on forecasts highly likely to be wrong. We have been told 'Brexit' would produce a £4,300 per annum fall in average household incomes. Pension pots would decline £32,000. Property values would fall 18%.

The audience thought their leaders had lost their senses and went back to worrying about uncontrolled migration.

I remember when 364 economists signed a letter to The Times in 1981, predicting economic collapse from Prime Minister Margaret Thatcher's austerity budget. It was the beginning of a boom. Similarly, most of the 'experts' forecast sterling would plummet when, in 1979, Thatcher ended 40 years of exchange controls. It was the start of a significant rise in the pound.

At the heart of the matter is governance. In the UK, citizens vote directly to elect an accessible local MP, who joins others in a parliament where the majority party forms a government to propose legislation promised in the manifesto.

By contrast, in the EU legislation is proposed by unelected civil servants, the Commission, subject to amendment by the European council and by the European parliament – most of whose members are not known to the electors but who take as their duty to decide for the EU ahead of what the citizens might desire.

Since 1996 the UK has voted No to a measure 55 times but found that all those motions were passed by the European parliament, where we have only 9.7% of members. The number of policy areas where individual countries retain a veto has fallen, so British positions inside the EU cannot be safeguarded.

For all these reasons it's time to leave. Thursday is the day of opportunity. We must take it.

Jack Wigglesworth is a founder and former Chairman of London International Financial Futures and Options Exchange (Liffe) and a member of the OMFIF Advisory Board.

21 Jun 2016

SECTION TWO

NEUTRAL

To get the best deal with Europe, Britain needs critical engagement, say those observers, who can see both sides of the argument. The British should not overestimate their position in Europe and the world. Nor should they neglect the risks of cutting themselves off from a framework that has provided stability for half a century. There can be no single European way forward. The answer is two Europes, one (with Germany at the apex) centred on the euro and aimed at ever-closer political union, the other (with the UK in a strong role) refuting shared sovereignty and built on trade liberalisation and the single market. Both can exist within a broader EU.

How to boost European integration

France could seize the chance of British No

Jacques Lafitte in Brussels

Former French President Charles de Gaulle's personal credo was that, great as Britain was, the nation was never ready to be European. Hence his rejection of the first British efforts under the two Harolds – Macmillan and Wilson, prime ministers in the 1960s – to join the Common Market.

More than half a century later, former French Prime Minister Michel Rocard, an Anglophile whose father served de Gaulle in London, says it is time for Britain to go. He heads a long list of French politicians and commentators who are waiting, some even hoping, for Britain to leave the European Union.

I hope Brexit doesn't happen. But if the UK does depart, I would like this to be such a shock on the continent that the euro area would finally move towards greater integration – by introducing a true economic union to add to the incomplete monetary union.

At present, as just one example of the euro's unfinished nature, mutual reinsurance of national bank deposit guarantee schemes looks almost beyond reach. But that could change. From a big EU crisis could flow big opportunities.

It's fair to say that Britain has always been a uniquely difficult member state. We French people often think of the UK's opt-outs from the euro and the Schengen agreement, the surreal 'opt-out-but-count-me-in' on justice and home affairs, and the rejection of common European defence.

I can live with all that. The cherished Denmark of my wife has even more opt-outs than Britain, and I can't even buy a sommerhus there. I see two much bigger problems with the UK.

First, Britain has long championed enlargement to countries that have very little to do with western Europe. It's not that long ago that London was up in arms because France (and Austria) decided to submit the accession of Turkey to a referendum. The second British scandal is that, for 20 long years between Jacques Delors and Jean-Claude Juncker, the UK has in effect hand-picked less than stellar presidents for the European Commission, only to complain the day after they were installed that they were propelling Europe down the wrong path.

British Prime Minister David Cameron's refusal to discuss seriously the refugee issues, and his claim that the Brussels accord on London's new arrangements awards Britain a 'special status' (which objectively it does not), are seen in France as a triumph of national egoism. All the same, some French people would like a similar deal. Cameron was the February rock star for National Front politicians. You can bet Boris Johnson will be the March one.

For now, in his unmistakable sphinx style, French President François Hollande is saying precious little. But if Brexit happens, the gloves will be off. At the start of a tense campaign ahead of the presidential elections in April-May 2017, France will remember it has national interests too.

The French elites know for sure that Brexit would be the last opportunity to resuscitate Paris as a major financial centre. And this time the French may seize it. With former Rothschild banker Emmanuel Macron, now a reasonably successful economy minister in Hollande's government, insisting he wants more billionaires in France, City financiers may find Paris a convenient place to relocate.

The conventional wisdom is that if Britain does leave, the consequences will take time to materialise. But, if Brexit happens, whoever is British prime minister on 24 June would have to obey the will of the people and start imposing frontier controls on EU citizens. Likewise, whatever the legal transition period, political reality would ensure that the House of Commons would start rejecting rulings of the European Court of Justice, and reimpose British judicial power.

In such an atmosphere of confrontation, the EU would have to retaliate to survive, to prevent others following the British example. Paris would be on the hardliners' side, not least because Marine Le Pen, the NF leader, is already rehearsing plans for 'Frexit'. An early measure would be to relocate the border with France on UK soil.

The UK might bid farewell to Brussels, but it would not escape difficult choices. And if it unwittingly drove the remaining EU states to bury their differences and seek greater prosperity through more integration, the Brits might one day have cause to regret a flawed choice.

Jacques Lafitte is Chief Executive of Avisia Partners, Brussels, and a former aide to Yves-Thibault de Silguy, the European Commissioner responsible for introducing the euro in 1999.

1 Mar 2016

Bookies' favourites normally win

Weighing up the odds on Britain's poll

William Keegan in London

I am still coming to terms with the prospect of the British EU referendum. Back in 1975, when we covered the first referendum campaign at the Financial Times, there did not seem much doubt about the outcome. It was an impressive two-thirds for remaining, and one-third for leaving.

This may have been not least because the British had spent over a decade trying to persuade the other members in general, and the French in particular, to accept us. However, wise heads such as David Watt, the great FT political editor of the time, hedged their bets. Watt said then that Brexit (then known as 'secession') was 'inconceivable in this generation'.

So here we are, a generation and a half later. This time David Cameron, not the ever-wily Harold Wilson, is in charge.

One of the intriguing features about the 2016 referendum is that the opinion polls are close, but the betting market is not.

As a follower of horse-racing, I am well acquainted with betting odds. I find that most political commentators, and newspapers generally (outside the rapidly diminishing racing pages), almost invariably misreport betting odds. You can almost guarantee that, when they report that the odds are 'on' a certain outcome, they really mean that the odds are 'against' such a result.

In the case of the 23 June poll, since betting opened the odds quoted by William Hill, unlike the opinion surveys, have been pointing strongly to a maintained status quo and against Brexit. That is to say, the odds are on Britain voting to remain. Indeed, at the beginning of March, the odds have been lengthening against Brexit and shortening on remaining. Shorter odds mean, of course, that you win less for your stake.

Thus the odds on the UK staying in have moved from 4 to 9, to 4 to 11, and now to 1 to 3. In the latter case, if you wager £3 on Britain remaining, and after what we 'ins' would regard as a successful outcome, you win your bet, then you only win £1. And of course you get your £3 stake back.

Conversely, as the counterpart of that 1 to 3 quote, William Hill were offering 5 to 2 against Brexit, or secession. You place £2 and win £5, plus your stake back, if some of the opinion polls are right and Britain is heading for the exit.

Well, I hope the bookmakers are right. Here, we are really talking about where the money is going, not just the view the bookies themselves are taking.

Odds-on favourites usually win, but this is not always the case, in horse-racing and elsewhere. Students of the succession to Mervyn King for the governorship of the Bank of England in 2013 may recall that Paul Tucker, the internal candidat

Well, Carney won the struggle, against the odds. But he was given a strong internal push by George Osborne, the UK chancellor of the exchequer, in the same way as Osborne is orchestrating the anti-Brexit campaign. If the 'remain' vote wins it, then the odds will favour Osborne taking over from Cameron before the next general election in 2020.

William Keegan is Senior Economics Commentator at The Observer and a Member of the OMFIF Advisory Board.

7 Mar 2016

Why India doesn't care about Brexit

World community and a Conservative quarrel

Meghnad Desai in Delhi

India does not care about a possible British exit from the European Union. Indians are like Americans. They see the rest of the world through their mirror. To them, India matters most. The others matter only if they affect India.

The whole EU debate remains, for India, a topic of little interest. 'Leave' campaigners should not believe that India (and most other Commonwealth nations) would welcome Brexit. Some people in the UK may regard the world as revolving around the Old Empire. Ask the countries that were in it and you will know that this is not true.

Shocking though it may sound, India does not rate UK as very important for its economy. David Cameron, the British prime minister, and George Osborne, the chancellor of the exchequer, have been to India on several occasions. Indian Prime Minister Narendra Modi took his time and kept the UK low on his list of countries to visit. Despite the importance of the Indian diaspora, India does not feel beholden to the UK.

India will pursue its preferential trade agreement with the EU. It will take due interest in the Commonwealth. Yet India feels the Commonwealth needs India, not the other way around.

The other day I was talking to some large Indian investors who asked whether the EU question was a Conservative versus Labour issue. In fact, the real reason for the present charade is the Conservatives' apparent death wish. I had to explain that this is a festering Conservative party quarrel, stretching back to the 1990 leadership struggle over Margaret Thatcher's successor.

Thatcher's supporters blamed the pro-Europeans for plunging in the knife against her. Since then, pro-Thatcher Tory MPs have regarded europhiles as enemies within. The Thatcherites made her successor John Major's life a misery, despite his 1991 Maastricht triumph in winning the opt-out from the single currency. Anti-EU Conservative MPs always wanted more euroscepticism at the top of the party. The issue has now returned after the Conservative party chewed up and spat out three post-Major leaders, William Hague, Iain Duncan-Smith and Michael Howard.

The divisions in the opposition Labour party run far less deeply. Labour is comfortable with the EU without being madly in love with it. Yet the party is generally pro-Europe, to the surprise of my interlocutors in India. This is despite the generally anti-EU views of Jeremy Corbyn, the Labour leader, who has been isolated from the party mainstream for decades. Labour was once divided on Europe, which is why Harold Wilson as prime minister had to hold a referendum in 1975. Then Jacques Delors, the European Commission president, came to the Trades Union Congress and convinced the brothers that workers' rights were safer under the EU than with Thatcher. That did the trick.

The EU has many problems. With 12 or even 15 members, it had a coherence and a community of interests, similar income levels, a western European outlook and (largely) a common Christian heritage. It lost shape with enlargement, which was an emotional spasm, driven by guilt about abandoning Czechoslovakia and Poland to Hitler and Stalin. Little thought was given to building a proper governing structure. The result has been, generally, a shambles.

Since Britain joined in 1973, I have moved from being a real hot federalist to a cool europhile. The EU needs structural reform. It needs democratic legitimacy. To get the best deal with Europe, Britain needs critical engagement. The British may want to fool themselves that the rest of the world is watching. But in reality they have better things to do.

Prof. Lord (Meghnad) Desai is Emeritus Professor at the London School of Economics and Political Science and Chairman of the OMFIF Advisory Board.

9 Mar 2016

The euro bloc strikes back

Risks to London currency trading if UK leaves EU

Christian Noyer in Paris

As Winston Churchill said in his 1946 'United States of Europe' speech, the revival of Europe, and the subsequent development of the European Union, could proceed only as a joint effort of Germany and France. If they disagreed, no progress was possible; if they agreed, many things were within reach.

The UK, joining the then European Community in 1973, has been key in several instances. One was the EU's eastern enlargement after the fall of the Iron Curtain. A second instance involved the establishment of the 'single market', making the common market more effective for services, including financial services, of major interest to the City of London.

EU membership by Europe's three major economies has been a factor for overall progress. One major issue lies in the creation of a two-tier system, with Britain outside economic and monetary union. The very low probability of the UK joining the euro transforms a legal exception into a permanent shift, which raises problems.

The UK fears that the EMU majority could 'dictate' EU rules. This fear can be addressed; I do not see for the time being any risk that euro members could act as an EU voting bloc. But Britain cannot enjoy a permanent exemption to any rule that is an essential component of the single market. This would destroy its rationale and effectiveness.

For France and Germany, the duality of the geographical areas of the EU and EMU is a complication. In making necessary EMU decisions, the Eurogroup of finance ministers does not have the legal authority of the Council of Ministers. For democratic accountability, there is no EMU parliament. The European Central Bank president holds hearings before a parliament of the whole EU, not just that of EMU. Refining the institutional setup is probably inevitable, for matters which are specifically and only relevant for EMU members. The same could be said of the banking union, although in principle it could be a larger area than that of EMU.

Regarding the consequences of Britain's 23 June referendum, I cannot see any circumstance in which the UK could benefit from the single market without observing its regulations. Nor do I see the possibility of associating the UK in designing these regulations if it is no longer in the EU.

I would like to focus on London's position in euro trading. It is already very difficult for euro members to accept that our currency is largely traded outside the currency area, beyond the control of the ECB and of euro area institutions such as market regulators. When tensions occur and risks materialise, the interests of a foreign financial centre might take priority over those of the currency area itself.

That can be acceptable only if, and as long as, the UK is a member of the EU, and accepts the involvement of, and co-operation with, the European regulatory agencies. If Britain left the EU, the euro area authorities could no longer tolerate such a high proportion of financial activities involving their currency taking place abroad.

Looking at the future more positively, building the EU has been a beneficial undertaking for the three major economies, and for the entire continent. It is an original concept: neither a federation nor a simple free-trade agreement, allowing nations with a large degree of sovereignty to develop specific co-operation. The EU has considerably changed over the years, in size and in substance. The EU is not a frozen concept. It is not true that we should simply either accept its faults, or reject it as a whole. If there are problems, most likely damaging all our countries, let us fix them.

Christian Noyer was Governor of the Banque de France between 2003 and 2015, Chairman of the Bank for International Settlements between 2010 and 2015, and Vice-President of the European Central Bank between 1998 and 2002.

10 Mar 2016

When the Bank must speak out

UK central bank and EU home truths

John Nugée in London

The Bank of England has faced criticism from eurosceptics in the UK parliament and elsewhere for allegedly having unduly supported the government's bid to keep Britain in the European Union. Mark Carney, the governor, told MPs this week that the prospect of leaving was the 'biggest domestic risk to financial stability'.

The chief executive of a London property group said in a letter to the Financial Times that, by announcing it would pump cash into the banking system in the event of Brexit, the Bank was joining 'the UK prime minister's Project Fear', which 'undermined its independence'.

This is the latest in a line of attacks. Lord (Nigel) Lawson, the former chancellor of the exchequer, claimed as long ago as last October that Carney had 'overstepped the mark' in making favourable statements on EU membership. Lawson said no other Bank governor would have taken a 'political' stand on such an issue.

However not Carney but his critics have gone too far. When the truth conflicts with their cherished opinions, politicians sometimes conclude that the truth must be wrong.

There is no great ambiguity about the Bank of England's constitution, set down in acts of parliament dating back to 1694. Technically it is a company with (since nationalisation in 1946) one shareholder, the Treasury, which can direct it, to a large extent, any way it chooses. Section 4(l) of the 1946 Act enables the Treasury 'from time to time to give such directions to the Bank as, after consultation with the Governor, they think necessary in the public interest'.

The 1998 Act gave the Bank operational responsibility for monetary policy, establishing the monetary policy committee, amending Section 4 (l) of the 1946 Act accordingly. However, the Treasury retains reserve powers to direct monetary policy if 'required in the public interest and by extreme economic circumstances'.

The Bank might like to give the impression of independence, but this goes much less far than that of the Federal Reserve or the European Central Bank. A better word describing its position would be 'autonomous'. Carney's support for the government's EU stance appears reasonable. It is in keeping with the legislation establishing the Bank's position and, crucially, its analysis of economic (rather than political) circumstances.

How the governor of the day interprets his powers is largely a matter of judgement. Robin Leigh-Pemberton, governor between 1983 and 1993, had even less nominal independence than today's governor, yet he had the backbone to take sides rather publicly in the debate over economic and monetary union, handled in the Delors Committee of which he was a member (on a personal basis) in 1988-89.

Leigh-Pemberton's successor between 1993 and 2003, Eddie George, who was outmanoeuvred by Gordon Brown, the incoming chancellor, in 1997 over the stripping of the Bank's banking supervision powers, was a steely markets practitioner who resolved to avoid politics as far as possible.

Mervyn King (2003-13) weathered waxing and waning relations with the government, the banks, other central bankers and his staff. But he was not loath to weigh in with some fairly political statements at times (on the UK's deposit insurance scheme, for example).

So the idea that the Bank is constitutionally forced to be silent on anything that may be thought of as 'political' is not entirely correct. If developments threaten to destabilise sterling or the financial system, the governor has not only a right but also a duty to speak out.

Like the Scottish National Party in the 2014 Scotland referendum, the 'leave' camp in the EU debate may try to undermine anyone who points out a few home truths. It is so much easier than trying actually to win the argument.

John Nugée is a Director of OMFIF and a former Chief Manager of Reserves at the Bank of England.

11 Mar 2016

A question of bragging rights

Debt once again fuelling Britain's economy

Bob Bischof in London

Part of Britain's EU 'leave' campaigners' strategy is to paint Europe, particularly the euro area, as a failing political and economic entity. They point to the UK's superior growth rate – 2.2% in 2015 – and low unemployment, and boast about Britain being the fifth largest economy in the world, one which could easily stand alone.

There isn't much reporting in the British press about the latest figures out of Europe. In fact the EU has made good progress over the last few years.

Euro area unemployment was 10.3% in January, down from 11.3% a year earlier. In the 28 countries that make up the EU, unemployment was 8.9%, down from 9.8% in January 2015 – the lowest level since May 2009. Unemployment fell in 24 countries. In 2015, GDP grew by 1.6% in the euro area and 1.9% in the EU as a whole.

These unemployment figures are still disappointingly high and the growth rates lacklustre. But they are being achieved while countries put their public finances in order. Austerity is actually working – with a bit of help from the European Central Bank.

Wolfgang Schäuble, the German finance minister, has set the example with a second year of budget surplus, despite the problems in emerging markets and Germany's migrant crisis, which saw over 1m refugees arrive last year.

Looking at how Britain achieved 2.2% GDP growth last year, with the annual deficit rising rather than falling and private household debt exceeding the catastrophic pre-crisis levels of 2008, I must ask who has the bragging rights here. Debt is once again fuelling the British economy through consumption rather than the hoped for revival in manufacturing and investment. The current account deficit has hit new records. And George Osborne's latest budget shows the chancellor of the exchequer is skating on very thin ice.

Brexit would make matters worse. It may trigger further depreciation of sterling – according to some economists to around parity with the euro – which could stoke inflation and force the Bank of England to raise interest rates. Outside the euro area, sterling is vulnerable to speculative surges and high volatility – much to the detriment of British exporters.

Osborne was trying hard on budget day on 15 March to balance the books with spending cuts and tax rises in a weakening economy. Not an easy task when he needs to keep his party and the country happy before the referendum.

Nonetheless, the people of Europe are getting fed up with austerity and their political elites, and falling for the extremists on the left and right. Mainstream politicians who support the need for prudence – and know that neither the state nor private households can live beyond their means in the long run – are paying a high price for their honesty and competence.

That is the policy followed by Germany. Britain on 23 June has to decide whether it will join the Germans in supporting this course.

Bob Bischof is Chairman of the German-British Forum, Vice-President of the German-British Chamber of Industry and Commerce, and a Member of the OMFIF Advisory Board.

21 Mar 2016

Europe in deadlock

Euro's confused state and the UK referendum

Ben Robinson in London

The confused state of the single currency, amid a general air of crisis in Europe made worse by last week's terrorist attacks in Brussels, has big implications for the British referendum on 23 June.

There was no very positive message for the in-out debate from a discussion at the launch at the Reform Club in London on 22 March of the updated edition of *Europe's Deadlock – How the euro crisis could be solved and why it still won't happen*, by David Marsh, OMFIF managing director.

The book's series of suggestions for resolving the crisis – including establishing a European treasury and finance ministry and making European governments rather than national central banks the owners of the European Central Bank – are highly unlikely to be realised, as Marsh admits in the book.

Antonio Armellini, a former Italian ambassador to India, argued on 22 March that the EU is a 'political project' and that the euro is a 'tool' for achieving this. Armellini warned of the dangers for the rest of Europe if the UK left, suggesting that this 'could be the end of Europe' and encourage rising nationalism. Yet if, as this suggests, the UK was a major factor holding Europe together, that will not provide a compelling reason for many voters for Britain to tie itself to Europe.

Lord (Nigel) Lawson, a former UK chancellor of the exchequer, and one of the leaders of the 'leave' campaign, criticised this approach to integration. He highlighted the historical experience of unification in the US, Germany and Italy, in which 'political union came before monetary union'.

Lawson suggested that the only two possible solutions to the 'euro disaster' were to abandon the single currency altogether or accept 'full-blooded political union'. If Britain does not want to be part of this union, it will have to leave.

All the speakers, including Lord (Meghnad) Desai, chairman of the OMFIF advisory board, and Lord (David) Owen, former UK foreign secretary, outlined alternatives to the status quo. These included Armellini's idea of a system of 'two Europes', in which a federal 'core' based around countries committed to the euro pursued closer integration while creating an 'outer' grouping based around an enhanced free-trade zone.

The speakers disagreed on Britain's role in this project. Lawson rejected the idea that the UK should vote to remain in the EU to lead the outer group of European countries. He argued instead that the UK must 'become a self-governing democracy again', suggesting it was 'strange to vote to be part of a union you don't agree with'.

Owen rejected the suggestion that leaving the EU would be a disaster, asking why, if this was the case, Prime Minister David Cameron called the referendum in the first place. Should the UK leave, it 'would reach trade agreements with the other European countries' similar to those it has now, given that the UK has a trade deficit with the rest of Europe. It would also remain an important member of Nato – the institution credited by both Owen and Lawson as being 'the source of peace within Europe', rather than the EU.

A vote to remain, however, could result in the Conservative party's eurosceptic wing creating problems for the government over the remaining four years of parliament.

Armellini rejected Lawson's criticism that part of Europe's problem is the unelected and remote nature of European governance, highlighting that European commissioners are elected officials, while national treasury officials are not.

In the context of the rise of anti-EU parties and challenges to the principles of monetary union, free movement and political integration, the discussion of how to solve Europe's deadlock is an important and timely one. But the problem is highly unlikely to be resolved – and in the short term the impasse could get still worse.

Ben Robinson is Economist at OMFIF.

30 Mar 2016

Fear of fissiparous forces

OMFIF poll points to disintegration danger

Athanasios Orphanides in Boston and others

One of the most important factors favouring the ‘remain’ campaign in the ‘in-out’ poll on 23 June is the fear that, should the UK leave, the rest of the European Union might be prone to disintegration. This would unhinge Europe’s economic and political stability and, as a result of the UK’s strong trade and investment ties and the simple realities of geography, damage British wealth and welfare – the opposite of what a ‘Brexit’ vote is supposed to achieve.

Many Britons might well have qualms in principle about deciding to stay within a grouping seen as so unstable that the UK’s departure might prompt its collapse. But the fear of fissiparous forces after a EU break-up may persuade many voters that they should restrain their instinctive wish to leave an entity they do not really like, and instead give it a new lease of life by staying in (at least for a few years, ahead of a possible new referendum if results are unsatisfactory).

This viewpoint – along with the more general consideration that Britain would be better off inside than outside the EU – was born out by a poll of the OMFIF advisory board carried out in March, the findings of which are contained in the OMFIF Bulletin for April.

We put two questions, regarding Britain’s own future inside or outside the EU, and with regard to the effect on the rest of the EU. An overwhelming majority of respondents – 82% – said Britain would be safer, more secure and more prosperous inside the EU. Just 13% said it would be better off outside. On the second question, opinion was more divided: 49% of participants said a British exit would promote disintegration, 22% thought it would encourage integration, while 29% foresaw neither outcome. Of the 170 members of the advisory board, 45 took part in the poll.

Among those commenting individually, Stuart Mackintosh, executive director of the Washington-based Group of Thirty think tank, said, ‘You cannot go back to the time when Britain was great, rather than middling. Outside Europe Britain would be a politically and diplomatically smaller country, less secure, less prosperous, less influential.’

Reginald Dale, director of the Washington-based Center for Strategic and International Studies’ Europe Program, wrote, ‘Brexit would have a disruptive effect on other weaker members of the EU but would encourage, over time, closer integration inside a hard core composed of euro members (though not necessarily all the current euro members). This will in fact happen anyway, even if Britain remains in the EU.’

Athanasios Orphanides, professor at the Massachusetts Institute of Technology, and a former governor of the Central Bank of Cyprus, said, ‘The rest of the EU is disintegrating anyway and the process will likely continue regardless of whether the UK stays in or not. Brexit could serve as a wake-up call however. If so, the odds that the rest of the EU will change course away from its current path of certain collapse will improve as a result of Brexit.’

Boyd McCleary, a former UK High Commissioner to Malaysia, took a bleaker view, opining, ‘Brexit is unlikely to promote integration. The French and some other member states would try to use it as a means of drawing the residual 27 closer together. But others could be tempted to follow Britain’s suit, or at least to use the opportunity to argue for more substantial reform of the institutions.’

The message is that the repercussions of a British exit would not be confined to the UK but would ripple out to the rest of Europe and beyond, with results that might take years to become clear.

Prof. Athanasios Orphanides is a Professor at the Massachusetts Institute of Technology, and former Governor of the Central Bank of Cyprus. This article combines the views of several members of the OMFIF Advisory Board.

5 Apr 2016

Another threat for Cameron

Panama papers: the Marconi connection

Brian Reading in London

The 'Panama papers' affair may not just be embarrassing for David Cameron's premiership, at a time of challenge over the European Union referendum. It could prove fatal.

There are some fascinating parallels with the story of the Marconi affair in 1912 that rocked the Liberal government of Herbert Asquith, UK prime minister in 1908-16.

The UK prime minister has been hit by revelations that his deceased father Ian Cameron set up an offshore fund in the 1980s with the help of Mossack Fonseca, the Panama law firm that had 11.5m documents leaked to the press. Cameron has suffered significant damage from association with information unveiled by an international consortium of investigative journalists exposing the offshore holdings of 140 politicians and officials, including 12 current and former presidents, monarchs and prime ministers, many with dubious reputations.

After days of obfuscation, Cameron admitted on Thursday night that he and his wife in January 2010, four months before he became prime minister, personally profited from a sale of £31,500 in shares in Blairmore Holdings, a trust operating offshore and unregulated in the Bahamas. The fund was brought back onshore to Ireland in 2012, and Cameron has insisted it was not a tax-avoidance vehicle. Cameron said he had paid income tax on the dividends but that there was no capital gains tax because the profit on the 2010 sale was less than the couple's tax allowance.

There is no suggestion of illegality in the Cameron family's dealings, in contrast to the Marconi affair, which involved corruption at the highest level. Both began with leaks, in 1912 by the alternative magazine Eye Witness (renamed New Witness), founded by Anglo-French writer Hilaire Belloc with G K Chesterton as a contributor. Its equivalent today would be Private Eye, the UK satirical magazine renowned for decades of revelations of governmental ill-dealings.

The Asquith government was about to award a lucrative contract to the English Marconi Company, subsidiary to the American Marconi Company, to establish the Imperial Wireless Chain. Sir Rufus Isaacs, attorney general – brother of Godfrey, Marconi's managing director – was privy to the secret. Rufus bought shares in the American parent, as did David Lloyd George, chancellor of the exchequer, and Lord Murray, Liberal party treasurer.

Insider trading was not then illegal but this was high-level corruption. A parliamentary inquiry, voting on party lines, exonerated the ministers. A criminal libel suit was brought against New Witness, which lost the case but won a moral victory with damage fixed at a derisory £100. The establishment whitewash was back page news compared with the struggle over Irish independence, industrial unrest and the outbreak of the first world war. The scandal became a footnote in history.

The bigger picture today is the EU referendum struggle. If Cameron's credibility is eroded, 'Brexit' becomes more likely. If the UK leaves, his stay in 10 Downing Street will probably end, too. His ally George Osborne, chancellor of the exchequer, would go down with the sinking ship. Boris Johnson, the London mayor and eurosceptic prime minister-in-waiting, may be preparing to move in. But don't count on it happening.

The lesson of previous removals of Conservative prime ministers in office – Harold Macmillan in 1963, Margaret Thatcher in 1990 – has been that not the leader of the insurrection, but a comparative bystander (Alec Douglas-Home and John Major in these two cases), takes over.

A mugwump, a fence sitter, who keeps out of the fray, has a better chance. If the Panama papers turn sour for Cameron, the next UK prime minister may be a surprise.

Brian Reading was an Economic Adviser to Prime Minister Edward Heath and is a Member of the OMFIF Advisory Board.

8 Apr 2016

The UK opinion gap

Massive protest vote likely on 23 June

Bruce Packard in London

Central bankers, diplomats, lawyers, lobbyists, senior civil servants, chief executives and other unelected technocrats believe Britain should vote on 23 June to stay in the European Union. There could be serious consequences if the UK left. Londoners might not be able to trade the euro. Bankers could move to Paris or Frankfurt. The UK may lose its seat on the UN security council. In the world of unelected technocrats, these things are important.

The most savage controversies are those about matters as to which there is no good evidence either way. We don't have heated debates about whether a triangle has three sides. We don't argue about whether Scotland is north of England. Lack of evidence tends to make an argument more emotive. This is certainly the case with regard to Britain and the EU.

The arguments for staying show how out of touch these people really are.

Lots of important people think the EU has benefited them. But they are a small minority of the electorate. In view of this gap between the opinions of the 'elites' and ordinary people, I predict a massive protest vote. Those who have unambiguously benefited from being part of the EU need to make the case to the rest of the electorate – yet they have not done this convincingly or forcibly.

Chief executives of multinational companies are so out of touch with reality they seem genuinely to believe huge increases in wealth and income inequality have been good for everyone.

Here is a specific example. I had lunch with a former boss, previously head of research at various investment banks, now in his 50s. He admitted that, despite being in the generally pro-European 1% of population by both assets and income, he wasn't sure how he had benefited from being in the EU.

I speak German and spend a good deal of time in Berlin, largely because the same former boss was forced to make me redundant. The chief executive had hired a large team from a German bank. I was replaced with a Spanish-born UK banks analyst, part of the incoming team.

There seems to be a lot less job security for London workers than for those working in other financial centres. London's economy, overall, might benefit from this hiring, firing and competition for jobs. But, having lost my job, I am less certain of how I specifically benefited. In a reversal of the situation, can you imagine a foreigner being favoured over a local in Paris, Frankfurt or any other financial centre? It rarely seems to happen.

I am still on good terms with the boss who fired me, and, unlike many Brexit discussions, this was not a heated debate. Over Spanish red wine and tapas in a City restaurant, we discussed the pros and cons of EU membership.

It struck us both that, if wealthy City types were not particularly bothered about lots of foreign exchange trading moving overseas or bankers moving away, surely people less fortunate than us would find these arguments unconvincing.

I have a favourable attitude towards closer European integration. I think the single currency was, and still is, a great idea, although not for Britain. I believe the EU is generally a beneficial undertaking – but not necessarily for everyone who lives in the UK.

We will be hearing a great deal from Britons who do not regard being in the EU as positive. I am steeling myself for the majority of my compatriots to choose an exit on 23 June.

Bruce Packard is an independent consultant who has covered UK banks since 2000, and a Member of the OMFIF Advisory Board.

18 Apr 2016

Return of a German nightmare

British EU exit and the unravelling of Europe

David Marsh in Washington

These are not propitious times to be pondering the pivotal position of Germany in the politics of European disintegration. The constellation of circumstances concerning a possible British exit from the European Union after the 23 June referendum demonstrates some unfortunate parallels with the most unstable episodes in German history.

Already unnerved by negative interest rates and the permanent outvoting of the Bundesbank in the monetary decisions of the European Central Bank, senior German officials show intense anxiety about the consequences of a UK EU departure. The concern is that this would deprive Germany of a key economic and political ally at a time of great nervousness over Europe's future.

In particular, it would leave the Germans exposed to the combined forces of France, Italy and Spain, the biggest economies in economic and monetary union after Germany, all ill-disposed towards German interests.

This would be an unsettling rerun of the 'nightmare of coalitions', the feared hostile combination of European powers that haunted Otto von Bismarck, the first chancellor of united Germany, in the closing decades of the 19th century. This time, the peril comes not from outside but from inside an alliance of neighbouring states. There are some similarities to the threat to German interests outlined to Chancellor Helmut Kohl by François Mitterrand, the French president, in the weeks after the fall of the Berlin Wall in November 1989.

Two days after invoking Mitterrand's wrath by unveiling an unexpected 10-point plan for German unity, Kohl sent Hans-Dietrich Genscher, his foreign minister – who died on 31 March – to Paris on 30 November 1989 to seek France's consent for redrawing Europe's architecture.

Mitterrand was implacable, telling Genscher that Germany had to prepare for serious negotiations on EMU; otherwise Germany risked a 'triple alliance' between France, Britain and the Soviet Union that could isolate Germany in similar fashion to the eve of the first and second world wars. 'We will return to the world of 1913.' Under this extreme threat, Kohl backed down. He agreed that the forthcoming Strasbourg summit would approve the start of an intergovernmental conference on EMU in the second half of 1990. This was the essential deal that launched Europe to the euro.

More than a quarter of a century later, 17 years after EMU started, the specific German worry is that ECB policies focused on ultra-low or negative interest rates are impairing the solidity and solvency of German banks and insurance companies, harming the incomes and livelihoods of millions of German savers. The undermining of faith in the euro appears to resemble John Maynard Keynes' description of the monetary processes damaging Germany in the aftermath of the first world war: 'There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency.'

The disintegrative effects of Britain leaving the EU, discussed more than once this year at the highest level of the ECB, has been a big topic in the spring meetings of the International Monetary Fund and World Bank in Washington in recent days.

While some senior ECB figures have put forward the more hopeful scenario that a UK withdrawal from the EU could speed up the integration of the rest of the continent, most central bankers around Europe disagree. A British exit, it is felt, could trigger anti-EU referendum campaigns in places ranging from Poland and Italy to Denmark and the Netherlands. It would also strengthen forces inside Greece calling for Athens to withdraw from EMU: instead of more European unity, a gradual process of disruptive unravelling would be the result.

David Marsh is Managing Director of OMFIF.

20 Apr 2016

Europe's fragmentation effect

Referendum could transform party political system

Meghnad Desai in London

The official campaign is on. Claims are being made about the economic costs and benefits of Stay or Leave. Since we do not even know to any degree of finality the UK's level of income in the last two years, how anyone can come up with a single number for costs or benefits is beyond me. Numbers no doubt change and confuse. The more important issue is not the economic effects of the vote, but whether the referendum could break up the political party system in ways we have not yet foreseen.

Think of the way 'Europe' has already affected British politics. The 1981 Limehouse declaration by the four Labour party leaders who defected to found the Social Democratic party was the result of a quarrel with their mother party over Europe. Now, 35 years on, the Conservative party is split down the middle over the same issue.

There is history here as well. It was the desire of William Gladstone, the British prime minister, to legislate Home Rule for Ireland which split the Liberal party in the 1880s. Those opposed to Home Rule – Unionists as they called themselves – defected and joined the Conservative party, which added the tag Unionist to its title. Joseph Chamberlain's defection was pivotal.

The way the in/out issue is being discussed one would think it is a purely domestic issue: nothing to do with the outside world. But there is alarm elsewhere. No one can believe the British can be seriously disregarding the interests of the rest of the world. The Americans are sufficiently worried for their former Treasury secretaries to have written to warn us about the consequences of Brexit. President Barack Obama arrives here today to reinforce that message.

But we are navel-gazing. We don't care what happens to the rest of the world and we won't listen to anyone else. Even so, we should think of our own interests.

Suppose Leave wins. As Kenneth Clarke, the former Conservative chancellor of the exchequer, has said, British Prime Minister David Cameron 'would not last 30 seconds' as leader of his party. People are assuming life would return to normal with a contest for the Tory leadership. But why should that be so? This quarrel has been going on since Margaret Thatcher resigned.

An alternative scenario. Stay wins. Brexiteers in the Tory party revolt and leave, and found a Freedom for Great Britain party. The UK Independence party joins them. The 'Stayers' become the rump Conservative party. There is a no confidence motion in parliament. Cameron would need Labour support to survive. If Labour joined the right-wing Tories (as it did under former leader Ed Miliband to scuttle House of Lords reform) along with the Scottish National party, Cameron could lose despite the Fixed Term Parliament Act.

But Labour could split too, as it has been itching to do under Jeremy Corbyn, its left-wing leader. Blairite and soft left Labourites would join the pro-European Tories to form a new political party – the British People's party. The handful of Liberal MPs could also come on board. The right-wing Tories and left Labour would stay separately in opposition. As with Home Rule, the British party system will be changed.

If Leave wins and Cameron refuses to go, much the same scenario could unfold. Cameron's own backbenchers bring a no confidence motion against him. The Tories split. The bulk of the Labour party supports him and the SNP abstains. Cameron stays but his party splits. The Blairite wing of the Labour party sees this as their chance to escape from Corbyn and Momentum, the pro-Corbyn, pro-Labour grassroots political movement – they could join a party well-endowed with funds, pro-European and likely to win. The Cameron Tories will welcome Labour as they would acquire reach in Wales, the north of England and Scotland.

Either way, the referendum may transform the party political system. It may not. But if it did, that would not be so bad either.

Prof. Lord (Meghnad) Desai is Emeritus Professor at the London School of Economics and Political Science and Chairman of the OMFIF Advisory Board.

21 Apr 2016

Frankfurt: ready to help

What may happen in post-Brexit EU

Eric Menges in Frankfurt

If Britain decides to leave the European Union on 23 June, Frankfurt is a probable winner – at least in part. Some financial market participants would look for an alternative to London to maintain business models that require a European passport or single market privileges.

Naturally, any development that slows growth or increases the cost of intra-European trade poses risks to Germany's internationally integrated economy. Frankfurt with its large airport – important for both passengers and freight – and international trade fairs would suffer if trade declined after 'Brexit'.

The Frankfurt region (spanning a 30-minute drive from the city and its airport) is often misunderstood to be predominantly a finance hub. In fact, automotive, life sciences, IT, consulting and automation are major sectors too, in some cases these are much larger than finance. They all rely on international trade. No one in the Frankfurt-Rhein-Main area would look forward to a post-Brexit Europe studded with trade barriers.

In finance, Frankfurt and London have been closely interlinked for many years. Whether or not the UK stays, there is much room for greater co-operation. There is certainly competition in terms of traditional financial institutions choosing between the two cities. However, the competitive element is less prevalent when it comes to new technologies and ideas created through international co-operation of young entrepreneurs, start-ups and universities from various countries and sectors.

Fintech companies, for example, have a better chance of achieving global scale if they design their business models with a large number of partners from varied business sectors and economic environments. In the face of growing competition from other parts of the world, Frankfurt and London can work together to generate UK and European fintech growth.

Frankfurt and the Frankfurt region are natural partners for London and the UK. With more than 200 foreign banks, more than 100 foreign consulates and over 30 international schools, English is the second language. People from the UK sent here for work find it easy to blend in. Every time I come to London I am amazed how easy it is to find my way around the business and social world.

For several years my marketing agency has made the UK one of our key priorities. We have worked with many companies that wish to increase their continental footprint. None has actually relocated from the UK to Germany. But they have decided that, in addition to their British base, a Frankfurt presence will help them access clients and markets for long-run benefits.

Whatever happens on 23 June, Frankfurt will intensify co-operation with companies from London and the UK. Should post-referendum circumstances require professionals to set up in Frankfurt, we are here to help. We like the Brits and would be reluctant to see them depart. But if they go, they go. Anyone facing the prospect of having to move parts of an enterprise (or the family) to Germany should contact me. Before and after 23 June, Frankfurt is open for business.

Eric Menges is Chief Executive of the Frankfurt-based promotional agency FrankfurtRheinMain GmbH, owned by the main municipalities in the region.

28 Apr 2016

Din of jingoism on EU debate

Why Asean should guard against complacency

Munir Majid in Kuala Lumpur

The ‘quitter Brits’ wishing to leave the European Union betray a touch of the daredevil: a contrived Battle of Britain spirit. The UK can do anything, handle any challenge, leap any hurdle.

Level-headed arguments get lost in a din of jingoism. We Malaysians note with interest how, even with the UK’s sophisticated electorate, rival campaigners manipulate facts and figures, discrediting or cancelling out self-evident truths. We have enough of these ‘them against us’ tussles in Malaysia. The UK, too, in an existential contest, is evidently not immune to these disfiguring bouts of populism.

Emotive issues like sovereignty, immigration and Prime Minister David Cameron’s modest windfall from his father’s offshore company tend to move the masses, as do appeals to baser instincts. Boris Johnson, the mayor of London and leading Brexiteer, makes rabble-rousing speeches filled with references to French knickers and empty-headed Romanians. The ‘remainers’ have a tougher task. It’s difficult to rouse the electorate with unemployment statistics.

Supporters of EU departure scorn government figures on the economic costs of leaving: the probable loss of 1m jobs, a 20% fall in inward investment, a big decline in living standards. They brandish exaggerated forecasts of Brexit benefits. But when the Treasury admits Britain is unlikely to keep immigration below 100,000 a year while remaining in the EU, the ‘leave’ campaign adopts the numbers as gospel truth and seizes on them with gusto.

The cost-benefit analysis, as well as the geopolitical arguments, resonate with sober voters. But many Brits are not particularly bothered about their country’s voice in the world.

President Barack Obama has underlined how Britain’s weight would fall outside the EU, and why the European venture started: to stop wars between its big powers and unite the continent. Yet who among the hoi polloi is going to listen to him, when they are convinced Britain has lost sovereignty to bloody foreigners and unelected eurocrats? The scary thing is that even the better informed appear to hold a deep grudge against the EU.

Faced with this spectacle of Britain (and possibly other European countries too) tearing itself apart over European integration, Asians might be tempted to show some self-congratulation. The Association of Southeast Asian Nations (of which Malaysia is a member) has embarked on a much less ambitious journey over integration. Some Asean leaders, scanning Europe’s travails over an ever-closer union to which our region would never aspire, are tempted to say: I told you so.

The Asean economic community was pronounced in place at the end of last year; but this is indeed little more than a proclamation. The closest association it has with anything European is with Jean-Paul Sartre: the Asean community exists because its member states say it does. A milestone on a long road with many signposts, many of them ignored. A single currency is unthinkable. There is no love of open borders. Even attempting the European objective of a common fiscal discipline would be unthinkable.

However, Asean countries should guard against complacency. Overly slow progress towards greater integration could frustrate some members, just as going too fast has tripped up the EU. Some Asean members might seek economic and political satisfaction from closer association elsewhere, building bilateral or extra-regional relationships instead.

The EU’s huge problems have come out into the open. Asean’s slow-motion integration will bring its own set of challenges – and they are not yet discernible. One day they will be, and the region should be ready.

Munir Majid is Chairman of Bank Muamalat Malaysia, Co-chair of the Asean Business Advisory Council, President of the Asean Business Club and Chairman of the Advisory Council of CIMB Asean Research Institute.

4 May 2016

The answer lies in duality

Why we should aim for Europe ‘one but also two’

Antonio Armellini in Rome and David Marsh in London

The interweaving, two-sided nature of the debate on a possible British departure from the European Union makes it both fascinating and confusing. The different aspects contain elements of yin and yang, thesis and antithesis, action and reaction. One moment controversy focuses on the emotive issue of immigration, where the Brexiteers seem to have the stronger hand. A minute later discussions swing back, for connected as well as unconnected reasons, to hard-headed economics, where the ‘stayers’ appear in the ascendancy.

The British show concern about trade and the single market, mortgage rates, the National Health Service and so on. In the rest of the continent (to which, by the way, the UK belongs) the fear is that ‘Brexit’ could destroy a political construct that has underpinned peace and stability for over 60 years. At the general council of the European Central Bank (linking all 28 EU members) in mid-March, some forecast that a British exit would help bind Europe together, but the overwhelming majority of monetary representatives said it would have a disintegrative effect.

The reality is that the EU, first and foremost, is a political pact. This is the word that ‘dare not speak thy name’ for the Remain campaign, worried that it could bring hordes of angry Brexiteers to the polling booths. It is important to understand what this means.

For centuries European conflicts have provided an opportunity for the British to exercise power and influence, but history has moved on. It’s difficult to believe the era of ‘divide and rule’ can return.

Overarching European stability is paramount, especially in view of new tensions with Russia. This stability can take the form of the fusion of disparate monetary and economic cultures to form a common currency. The euro area is somewhat battered, but still alive. Others, including the British, believe that countries should co-operate without unnecessarily renouncing parts or most of their sovereignty. Both approaches are legitimate and can co-exist independently without unduly impinging on each other.

There can be no single European way forward. The answer is two Europes. One, the ‘Europe of Altiero Spinelli’, is centred on the euro and aims at an ever closer political union. The other (‘the Europe of Margaret Thatcher’) refutes shared sovereignty and is built on trade liberalisation and the single market. Both can exist within a broader EU. One could call it (although the name would probably not catch on) the ‘Europe of Count Coudenhove-Kalergi’, after the founder of pan-Europeanism – defined by democracy, rule of law, market economy and fundamental rights and freedoms. This ‘outer rim’ could gradually encompass countries such as Turkey.

Britain would be the reference point for the new ‘Europe of Margaret Thatcher’. It could exercise considerable influence in shaping its structure and relations with the rest. Were the UK to leave and become another Norway, it would still have to contribute to the EU budget and accept many of its laws and regulations, including free movement of people.

A less balanced, more fragile and more fractured EU would represent a loss of stability, opportunity and wellbeing for all. Perhaps the answer lies in duality, expressed in Goethe’s poem on the leaf of the Ginkgo-biloba tree.

‘Is it but one being single, which as same itself divides? Are there two which choose to mingle, so that each as one now hides? As the answer to such question, I have found a sense that’s true: Is it not my song’s suggestion – That I’m one and also two?’ That should be the watchword for 23 June and beyond.

Antonio Armellini was Italian Ambassador to India between 2004 and 2008. He is a Member of the International Institute for Strategic Studies and Istituto Affari Internazionali, and a Member of the OMFIF Advisory Board. David Marsh is Managing Director of OMFIF.

6 May 2016

Keep calm and carry on

World can manage Brexit risks

Martin Hüfner in Munich

I would regret Britain leaving the European Union. But 'Brexit' would not be the end of the world. It would not lead to a global financial crisis. Markets would have ample time to prepare. Central banks stand ready to intervene. The full effects of British departure would not become immediately apparent. They will only be seen after a transition period of at least two years of hammering out the details. This makes things less dramatic.

In the short term we would see substantial turbulence. Uncertainties abound. What would happen to the British government? Could a UK exit trigger political disruption on the Continent? Could Scotland raise the question of a new referendum? Could investment, growth and employment in the UK collapse? What happens to sterling?

All these risks add to the other well-known weaknesses of the world economy. That makes them dangerous.

But these uncertainties are temporary. Whatever is said today, whatever threats are raised during the campaign, Britain and the EU would remain neighbours. They depend on each other in so many fields. They cannot afford a lasting confrontation. This applies not only to the economy but also to national security. We will continue to live in the same house, whether Britain is inside the EU or not.

The big issues arising from Brexit can be resolved. The UK's complete exclusion from the single market, for example, would be a setback for everybody. But it is in no way necessary. There are numerous examples, not least those of Switzerland and Norway, of how the relationship could be reshaped.

For London's status as the financial centre of the euro, the European Central Bank will probably set some unpleasant rules. Paris and Frankfurt will come up with claims to kick the City out of the game. But it is doubtful whether they will succeed. The attraction of a financial centre does not depend on the decisions of central banks or governments. London has three advantages that are difficult to rival: the qualification of the people working there, the English language, and its geographic and cultural links with New York.

A further question centres on the redefining of European identity. Without Britain the EU would be smaller and less influential in the world. Its character would be less open, less democratic, less transparent, less market-orientated. Especially for countries in the centre of the continent, life would become more difficult.

Some other EU members could follow Britain's example and exit too. That would create great problems. But it would not be the end of Europe. The euro would not break apart. The EU could reinvent itself.

So keep calm and carry on. British exit would create risks – but they can be managed.

Martin Hüfner is Chief Economist of Assenagon Asset Management.

9 May 2016

Concern over loss of passports

Brexit disruption for UK asset managers

Guy Sears and Angus Canvin in London

Financial services exporters are justifiably concerned about what might replace the system for sales of financial services to the European Union if the UK votes to leave on 23 June.

Britain's trade with the rest of the world plays a vital role in the referendum debate. This matters because the UK financial services industry generates a trade surplus with the EU estimated at £72bn for 2014, the latest available year, more than all other UK net exporting industries combined.

The UK asset management industry, for which the Investment Association is the national trade association, is a particular success story. The sector is by far the EU's largest, with about 37% of total EU assets under management.

Under the present system, UK asset managers may export their services to the rest of the EU under so-called 'passports', allowing an asset manager in one EU member state to provide its services in (or to customers in) other member states without the obligation to comply with additional local regulation. A common feature of EU financial services law, passports are at the core of the EU single market in financial services, from which the UK derives significant economic advantage.

A UK-based asset manager may manufacture, market, sell and manage collective (or pooled or mutual) investment funds organised under the umbrella of Undertakings for Collective Investments in Transferable Securities. These funds must be domiciled in an EU country. While most distribution is within the EU, the UCITS brand is globally distributed.

UK asset managers can also service the rest of the EU collective investment market (such as hedge funds for high-net worth and professional investors) under the EU's AIFMD passports, named after the Alternative Investment Fund Managers Directive. Additionally, British asset managers service the global institutional market (including pension funds and insurance companies), facilitated in the EU through a passport under the EU's MiFID legislation, named after the Markets in Financial Instruments Directive.

Of course, the passport system could be improved. Some EU members impose local requirements, such as time-consuming registration of documentation, or the need to have a local business presence. The Investment Association has drawn these local distortions to the attention of the European Commission, which has pledged to work to eradicate them. But these problems are minor irritants compared to the business benefits of the passport system.

The Commissioner with responsibility for financial services, Lord Hill, has warned that British departure could deny UK-regulated funds access to the EU market, since UCITS funds cannot be domiciled in a non-EU country.

Investment Association analysis concludes that, should there be a full UK exit resulting in the UK having third-country status, this would profoundly disrupt the export of asset management services and products.

While there are alternative models which might reduce the impact, leaving in such circumstances would not be a desirable outcome for the UK asset management sector.

Guy Sears is Interim Chief Executive and Angus Canvin is Senior Adviser at the Investment Association.

11 May 2016

Rebelling against bipartisanship

Britain's battle in the Washington echo chamber

Darrell Delamaide in Washington

The US national security establishment really, really does not want Britain to leave the European Union. This is a foreign policy issue that, somewhat astonishingly in fractious Washington, enjoys solid bipartisan backing.

'It would mean a weaker UK, a weaker EU,' said Stephen Hadley, national security adviser for President George W. Bush in his second term, in a discussion at the Atlantic Council this week. 'It may actually precipitate an unraveling of the EU.' Tom Donilon, in the same position for nearly three years under Barack Obama, echoed his remarks. 'I have seen no analysis that does not conclude the UK would be weaker economically... The US wants a strong UK in Europe.'

The one-sided discussion – backing the line of Obama, who urged British voters to affirm EU membership in London last month – was couched in pure binary terms. Leaving means weakness. Staying spells strength. But harmony can be deceptive. When the establishment unites, voters can rebel.

The Atlantic Council released an open letter signed by 13 former secretaries of state and defence as well as national security advisers from both parties. 'We are concerned that, should the UK choose to leave the European Union, the UK's place and influence in the world would be diminished and Europe would be dangerously weakened.'

Hanley and Donilon suggested that British departure would embolden half a dozen other countries to demand their own referendum. That would stiffen the spines of EU negotiators on British exit terms, as they would need 'to send a deterrent message that leaving was not so easy and not so beneficial'.

The two geopolitical experts said British exit would cripple transatlantic co-operation on counterterrorism and military preparedness, strengthening the aggressive stance of Russian President Vladimir Putin in central and eastern Europe. 'There could not be a worse time to do this,' Donilon said. 'An express aim of Putin's is the fragmentation of Europe.'

The Washington discussion missed some complexities. When Donilon breezily suggests that the US doesn't want an inward-looking, insular UK, his assumption (unchallenged) is that this is the only alternative for Britain outside the EU. Brexit supporters, by contrast, think leaving would liberate the UK and allow it to pursue a more flexible, open policy on trade and investment – the very opposite of insular.

Yet clearly, on the UK-EU conundrum, the foreign policy establishment in Washington speaks with one voice. If Hillary Clinton clinches the Democratic nomination and goes on to win the election, Obama's former secretary of state would probably select advisers from this close-knit community.

Donald Trump, her probable Republican opponent, has been saying he thinks the UK is better off without the EU. He has been a fierce critic of US foreign policy, not only in the Obama administration but also going back to the Bush administration's decision to invade Iraq.

Trump's stand against the bipartisan consensus displays important lessons. The more the establishment – whether in the Republican party, the media, or the Washington think-tanks – attacks Trump, the stronger he seems to become among voters. This countervailing political current was absent from the echo chamber discussion at the Atlantic Council.

There may be a wider lesson here. Too many Washington conferences where everyone agrees can breed dissent elsewhere. As the UK referendum campaign moves into its closing stages, there is plenty of opportunity for decidedly non-mainstream voices to prevail.

Darrell Delamaide is a writer and editor based in Washington and a Member of the OMFIF Advisory Board.

13 May 2016

Greeks benefiting from Brexit rhetoric

Hitler common denominator as Europe wallows in its past

David Marsh in London

Greece seems likely to be a big beneficiary of heated European rhetoric over the British referendum and the ousting of the Austrian chancellor in a dispute over the rise of far-right politicians. Attrition in the UK and Austria has greatly contributed to softening German policy on Greek debt over the past week.

In three of Europe's prime theatres of psychological war – London, Vienna and Athens – the spectre of Adolf Hitler is playing a role in helping shape events. Far from escaping its past, Europe is wallowing in it.

Boris Johnson, the mercurial former mayor of London and campaigner for British departure, enlisted the services of Germany's 1933-45 Nazi government leader in a weekend interview on how Europe had to resist centralising tendencies. Just to show geographical even-handedness, he mentioned Napoleon too.

The Hitler comparisons provoked a predictable storm from Remain leaders. But it was in a sense a historical, if slightly hysterical, riposte to Prime Minister David Cameron's enumeration, a few days earlier, of the battles of Trafalgar, Blenheim, Waterloo and two world wars to back his view that Britain had to stay in Europe.

In Austria, the hapless Werner Faymann quit after seven years as chancellor, the biggest political casualty yet of Europe's refugee crisis that has led to a surge of support for the country's far-right Freedom party, the leaders of which are routinely compared to Hitler.

A perennial element in the Greek fight to win concessions from creditors, led by Germany, is the memory of the country's wartime rule by the Nazis. Occupation images are never far from the surface in Athens street demonstrations against allegedly German-inspired austerity.

Signs that Germany and other creditors are moving towards long-awaited Greek debt relief surfaced at last Monday's euro finance ministers' meetings. Amid renewed worries that Britain may leave the European Union after the 23 June poll, along with Faymann's political demise, Germany wants to avoid further European turmoil during an acutely sensitive phase for European politics.

Berlin fears a British departure would open it to an unholy combination of protectionism and demands for German largesse from other European countries, particularly France and Italy. So the Germans are moving to meet the International Monetary Fund's request for a further stretching out of Greece's debts to the European Stability Fund, along with a cut in already low interest rates.

Debt relief and an easing of draconian European demands for a Greek primary budget surplus (before debt service) of 3.5% of GDP are a key condition for the IMF's participation in the latest €86bn Greek bail-out.

A deal to extend outstanding maturities by another five years and to limit interest rates to 2% up to 2050 seems likely when European finance ministers assemble again on 24 May. This would secure Greek repayments of around €3.7bn to the European Central Bank, the IMF and other creditors in July – and ensure that annual Greek debt service does not exceed 15% of GDP up to 2030, a key IMF condition. French President François Hollande has played a key background role in preparing the prospective agreement.

Wolfgang Schäuble, the German finance minister, appears to have concluded, sensibly, that compliance with Greek, French and IMF conditions is a lesser evil compared with further bad publicity about German intransigence.

Yet pushing the compromise through a fractious German parliament will spark further outbursts from the anti-euro, anti-immigration Alternative for Germany (AfD) party. History as well as economics will remain in the headlines – with Hitler a shadowy yet potent common denominator.

David Marsh is Managing Director of OMFIF.

16 May 2016

Competition of uncertainty

Why Remainers must send a positive message

Mark Boleat in London

On 23 June the British people will take part in probably the most important vote of any sort in Europe in a generation. This referendum on European Union membership is irreversible and really does matter to the whole of Europe – unlike the Dutch referendum on the EU-Ukraine trade deal in April, which mattered to Ukraine but less so to the Netherlands. Even with a majority of just one vote for ‘Brexit’, Britain will leave the EU. There is no option of a second referendum with a better deal on the table.

As the vote draws closer, the more we can appreciate its significance. For most businesses, whether or not Britain is in the EU is of marginal significance. But for many, including small and medium-sized enterprises, it is vitally important. Directly or indirectly, many businesses take full advantage of the single market to buy and sell goods and services, and obtain skills in their workforce they cannot access domestically.

The EU’s deficiencies are evident and generally accepted – in particular an inefficient decision-making process and the single currency project, which at best was poorly implemented and at worst misconceived. But it does not follow that Britain should leave.

When making any major decision, one has to assess the benefits and costs, including the transitional costs of moving to a new arrangement. The evidence is that, on balance, Britain has benefited from EU membership. This is true of the financial services industry: London has become a financial centre for Europe, bringing huge benefits to the UK in terms of jobs and tax revenue. A major concern in the City is the uncertainty Brexit would cause – and indeed to a limited extent is already causing, as property and recruitment decisions are put on hold.

One inherent problem in the debate is a competition between two forms of uncertainty. If the UK chooses to remain, many issues in Britain’s relationship with Europe remain open. But this is nothing like the uncertainty attached to the Leave option. At a minimum the EU and the UK would face an unsettling two-year period setting the terms of a new relationship.

The different sides are at least properly evaluating the alternatives. The Leave camp seems to favour a loose free trade arrangement with the EU, such as that enjoyed by Albania. Others have talked about the Canadian free trade agreement as a model – even though this took seven years to agree and has yet to be implemented. Falling back on World Trade Organisation procedures has been mentioned. These three options have one thing in common – they exclude financial services, so financial businesses based in Britain would no longer have access to the EU market through the ‘passport’ system.

This is a debate in which business must be fully involved. Businesses and their representative bodies have a clear duty to spell out Brexit’s implications for their business or sector in an evidence-based, dispassionate way, without seeking to tell people how to vote.

Only a handful of large companies have come out in favour of leaving the EU, while many, including some leading trade associations, support remaining. But winning the intellectual argument is not enough. The Remain campaign must also have a positive message – setting out the benefits of membership, rather than just the costs of leaving. There is still time for those who wish to stay to set out a convincing positive agenda.

Mark Boleat is Chairman of the City of London Policy and Resources Committee.

19 May 2016

A guide to break-up

How Britain could leave – and perhaps join again

William Keegan in London

Gerard Lyons is an economist who began his City career with a firm of stockbrokers and moved on to a series of international banks, where he gained widespread experience of what is now referred to as the ‘globalised’ economy. After 27 years he made the somewhat challenging career move of becoming economic adviser to Boris Johnson as mayor of London.

Lyons, the author of *The UK Referendum: An Easy Guide to Leaving the EU*, presents the book as a ‘balanced view’ aimed at helping people understand the key issues the referendum campaign has raised. He aims to make the European Union ‘accessible to all’. Unlike some experts on the subject he writes with commendable clarity, doing his best to avoid ‘eurospeak’. In short, easily digestible chapters he offers a history of the EU and pithy summaries of the single market’s workings – as well as obvious issues such as the cost of the UK’s EU membership, the economic pros and cons of migration, Brexit’s impact on the City of London and the debate about trade agreements.

However, as the title implies, this is not really a balanced account. Lyons is strongly pro-Brexit, and seems to minimise the problems that might arise in renegotiating trade and other arrangements from what most of us in the Remain camp would regard as a position of weakness.

Much of what he says is perfectly sensible. For instance, some of the more passionate Remainers overstate their case by giving the impression that half our trade would halt if we left. This kind of exaggeration is an easy target for Lyons, as are the EU’s obvious imperfections as it stands, let alone the euro area’s design. But he becomes quite cavalier in claiming, ‘Presumably if the UK were to vote to leave in the 2016 referendum – and if the EU proved successful – then there is nothing to stop the UK voting to rejoin.’ Oh no? And what is to stop our former partners saying, ‘Allez vous en!’? Precious little I should have thought.

Lyons concedes there might be a short-term cost. But why incur one in pursuit of speculative long-term gains? Recent economic statistics seem to indicate that the very prospect of that short-term cost is already damaging investment.

I have long admired Lyons’ work. But he and others seem to underestimate the economic importance of the UK’s EU membership for the investment decisions of multinational corporations. They ignore the degree to which so many firms spread their operations throughout Europe in complex networks which Brexit would severely disrupt. The idea that British industry would, after Brexit, be free to expand in other markets is a chimera. It already is.

I did not get where I am today by imagining Brexit would mark the end of the world. I just think it would be pointless, and that for reasons which demonstrate a severe failure of leadership, indeed statesmanship, on David Cameron’s part. The British prime minister has gambled the good work of decades when we tried to join what is now the EU for short-term, internal Conservative party reasons.

George Soros was right when he said that, by being members of the EU but not the euro area and the Schengen agreement, the UK has the best of both worlds. Much that we – and especially the younger generation – take for granted in the EU would disappear after Brexit.

William Keegan is Senior Economics Commentator at The Observer and a Member of the OMFIF Advisory Board.

The UK Referendum: An Easy Guide to Leaving the EU is available for download from Amazon as a Kindle Single. Gerard Lyons is an independent economist and former Chief Economic Adviser to the Mayor of London. He is a Member of the OMFIF Advisory Board.

20 May 2016

A continental love affair

Pointed paean to Europe of ‘hope and solidarity’

David Marsh in London

Denis MacShane, the former Labour MP and British Europe minister, has a nose and an ear for a good story. At a time when others (myself included) believed the chances of a UK referendum on European Union membership were slim, he spotted the possibility that this could exert a convulsive shock on the British and European system – and wrote a book on the issue in February 2015: *Brexit – How Britain will leave Europe*.

As the campaign gallops towards the final act, MacShane has produced another book – short, readable and pointed – *Let's Stay Together: Why Yes to Europe*, demonstrating what he calls his ‘love affair’ with Europe and why the UK should carry on the community of ‘hope and solidarity’ after 23 June.

MacShane underlines that the debate is mainly about emotion and judgement rather than hard-and-fast fact. For MacShane, a cosmopolitan and conversational urbanite who can engagingly raise his glass and make rousing political speeches in a profusion of European languages, the continent’s appeal lies in the history of peace and co-operation since 1945. In particular, he cites with feeling the freeing of Poland (from which his father hails) and other central and eastern European states after the fall of the Berlin wall.

MacShane approvingly quotes Charles de Gaulle’s welcome to the reawakening of free speech after the liberation of Paris in 1944 – even though the General turned out to be no great defender of liberal media when he regained power after 1958.

Minor quibble – MacShane says Paris was liberated by the Free French, whereas he might have mentioned the role of American and British arms. He does however rightly place emphasis on the importance of the EU and Nato working together, saying that Britain’s membership of the Atlantic alliance embodies a greater derogation of national sovereignty (for example, the obligation to go to war with any belligerent against a Nato member) than anything in the EU treaties.

As a genial pugilist who enjoyed teasing his rivals, MacShane was regularly given a hard time – greeted by ‘an audible hiss and buzz of rage’ from the Tory benches – in Commons debates.

With a level-headed style (but not without panache) that protagonists on both sides of the EU battleground would do well to emulate, MacShane eschews rhetorical overkill and keeps his arguments down to earth.

He scotches a few myths along the way.

The phrase to which many Brexiteers take exception – ‘ever-closer union’ – was inscribed in the preamble to the Treaty of Rome signed in 1957, referring not to states but, more innocuously, to ‘peoples’. MacShane reports how, when he was Europe minister, British officials helped remove the essentially symbolic phrase in the European constitutional treaty that was voted down in 2005, but it reappeared in the Lisbon treaty that took its place. ‘I am sure none of my conservative eurosceptic friends came up to me to thank me for removing it before 2005, just as I am certain that no Conservative made a fuss when the phrase popped back in 2007.’

MacShane unrepentantly reprints his list of ‘50 reasons to love the EU’, which first appeared in the Independent newspaper in 2007, including such choice findings as ‘Making the French eat British beef again’ (No.14), ‘British restaurants are now much more cosmopolitan’ (No.47) and (No.50) ‘Lists like this drive the Eurosceptic mad’. Reason No.36 is ‘Britons now feel a lot less insular’.

On 24 June we shall find out whether this is true.

David Marsh is Managing Director of OMFIF.

Let's Stay Together: Why Yes to Europe is published by I.B. Tauris. Denis MacShane is a former Minister of Europe and a Senior Advisor at Avisa Partners. He is a Member of the OMFIF Advisory Board.

20 May 2016

Swish Six go to Europe

Things turning out well for Cameron

David Marsh in London

Scene: Westminster – Garden, 10 Downing Street, next to the rhododendron bushes
Date: Friday 24 June, 15.00

Six besuited men stride across the lawn, sober, slightly sheepish. They are greeted with expansive bonhomie by another male, open-neck-shirted, rosy-cheeked.

David Cameron: (*beams*) Welcome, gentlemen, I wanted to celebrate with you. The people have spoken. A 60-40 majority for staying in the EU. Bigger than anticipated. You have all had a hand in this, even those who opposed me (*meaningful pause*)... Our six living former chancellors of the exchequer (*they shift uneasily*) all gathered here, quite an occasion! I want you to bury your differences. Help me launch genuine European reform...

Nigel Lawson: (*briskly*) You can forget that. I've been trying that for years. The EU is genuinely unreformable, you're wasting your and everyone else's time...

Cameron: (*chidingly*) Come now, Nigel, you helped me enormously by making all kinds of outrageous demands for improving the EU. We knew that would never happen immediately... but you softened them up, got 'em ready for another round. The British are not happy with the adjustments I got in February. So we're playing the Oliver Twist game – going back for more!

Norman Lamont: The claims you made, prime minister, about the dreadful aftermath of Brexit were completely preposterous... War, famine, house prices. We felt utterly steamrollered by the fear campaign...

Cameron: Yes, good wasn't it? The RAF is dropping leaflets over Paris and Berlin this evening describing a likely plague of locusts if they don't comply with our demands. With a rather terrifying picture of Marine Le Pen. Should do the trick...

Gordon Brown: (*scowling*) What exactly do you want us to do? I'm here only because Labour won you the Scottish referendum... without Labour's votes, you'd have lost. Because Jeremy Corbyn backed Europe, you're some kind of hero...

Alistair Darling: (*Scottish accent accentuated*) Without us, you'd be nothing. Without Labour you'd be facing another Scottish referendum!

Cameron: (*with gusto*) I want you to be my emissaries to Europe. The Swish Six! That's the Sun headline tomorrow! Tell 'em that Britain's staying in for now – we'll have another referendum in 2021 unless they give us what we want! Migration, the budget, democratic deficit, parliamentary powers, a watertight deal on the euro...

John Major: We can capitalise on a not unfavourable concatenation of circumstances. We have some experience of getting Europe out of dire straits...

Kenneth Clarke: (*rounded tones*) We've saved them from a fate worse than death. Sorry to say this, Nigel and Norman, but if we had voted for Brexit, referendum campaigns would have started in 10 other countries. Europe would be falling apart – and they'd blame it all on the Brits!

Cameron: (*mollifyingly*) Nigel, I want you to handle the French – since you're there most weekends anyway. Ken, the softer currency countries haven't forgotten how you saved the exchange rate mechanism in 1993. You will focus on Italy. John, you got on with Helmut Kohl. Angela wants you spend next weekend with her in a castle in Berlin. The Germans are on our side, their new migration curbs are much more severe than ours. Mention world war three to her. Works a treat!

Major: I find my elder statesman role goes down rather well these days... especially with the ladies...

Lawson: Whatever deal we get will never get through the European court...

Cameron: Alistair, you're the best lawyer here. We're sending you to Luxembourg! And we nullify the ECJ by our changes to the Commission. Juncker's letter of resignation is on its way to me. Angela and François have agreed George will be president. An ex-chancellor running the show in Brussels! In the footsteps of Roy Jenkins...

Brown: If you send Osborne to the Commission, who's taking his job? (*growls*) Surely not Boris?

Cameron: (*sternly*) Mr Johnson is taking up new duties as ambassador to the Vatican. Handy use of his Latin. He's also in charge of the Spectator's bicentennial in 2028. Gordon, you'll take the southern countries. You're good with the poor and underprivileged. (*Brown glowers*) Norman, as well as looking after Iran for me, I'd like you to take Greece – you have quite a following there.

Lamont: (*half-wonderingly*) Not for the first time, prime minister, in a curious way, things seem to be turning out unexpectedly well for you...

Cameron: Quite. Now, sorry gentlemen, I have to go, Janet Yellen's on the line. She wants to know if she can raise interest rates...

David Marsh is Managing Director of OMFIF.

24 May 2016

Stay or leave: a sovereign choice

Britain, the EU and limits of globalisation

Kingsley Chiedu Moghalu in Boston

At the heart of the debate about Britain leaving or remaining in the European Union lies an argument over the meaning of sovereignty and democratic legitimacy. Everything else is sophistry.

If there is one lesson developing countries and emerging markets should learn from the crisis of the EU, it is that they must be extremely cautious in approaching experiments in multinational integration, despite their faddish but fading appeal.

This advice applies with even greater force to monetary unions, such as the one Africa has fitfully pursued in past years and now shelved. Thankfully for Britain, it has sensibly maintained sterling and has no plans, whatever happens, to jettison it for the euro.

The EU is a political project that has artfully deployed economics to cloak itself with legitimacy. It has sought, ever more stridently, to assume decision-making powers over its member states that are more appropriately reserved for sovereign authority backed up by democratic legitimacy.

The Union wants to transfer such powers to mandarins and potentates in Brussels who lack such legitimacy. In the economic sphere, the euro crisis has exposed the tension inherent in a monetary union not backed by fiscal union.

The historical roots of the EU lie in political jockeying between France and Germany. The two countries are trying to overcome their historical burdens through a political union that would obviate better-forgotten memories. The French sought to retrieve their superpower status from the ashes of Napoleonic defeat. The Germans after the second world war wanted to renounce their previous extreme nationalism, provided everyone else sung along too from the same hymnbook.

Plenty of prospering European countries remain outside the euro (Denmark, Sweden, Poland, the Czech Republic, in addition to the UK), as well as outside the EU (Norway, Switzerland). For all the hype about regional integration, the concept of sovereignty – national populations controlling their national destinies – is alive and well.

Euroscepticism is a strong sentiment in Europe. Bureaucrats and politicians wedded to the European project appear to be clinging to an ideological worldview out of step with the wishes of the populace.

President Barack Obama has weighed in on the side of Britain remaining inside the EU. This makes sense from the standpoint of strategic American interests. But it would be hard to imagine the US or China signing up to anything remotely similar to the Maastricht treaty.

Sceptics in Britain and elsewhere in Europe oppose the idea of political and economic integration because they do not want the restrictions EU law imposes on elected national parliaments' legislative ambit.

As former Greek finance minister Yanis Varoufakis argues in his excellent book *And the Weak Suffer What They Must*, an alliance of states such as the EU can make many mutually beneficial arrangements of a military or economic nature. But it cannot usurp or overrule the sovereignty of its member states because it lacks the sovereignty and political authority that only the citizens' democratic action can confer.

For all these reasons, the debate on British membership of the EU is helpful and necessary. Notions such as the end of sovereignty may be beguiling, but they are not true. We see in Britain the contradictions between national sovereignty and cross-border integration: in essence, the limits of globalisation.

Whatever the outcome of the 23 June referendum, the decision will have democratic legitimacy. And we can never take for granted what democracy will bring.

*Kingsley Chiedu Moghalu, a Senior Adviser to the OMFIF Advisory Board, is Professor of International Business at The Fletcher School at Tufts University and a former Deputy Governor of the Central Bank of Nigeria. He is the author of *Emerging Africa: How the Global Economy's Last Frontier Can Prosper and Matter*, published by Penguin.*

26 May 2016

A vote for European balance

Stay in EU, watch sterling climb

Thanos Papasavvas

The UK is likely to stay in the European Union after the 23 June vote. So I have been backing a contrarian positive outlook for sterling since its lows in March, when disquiet about a British exit was at its height.

My view on the pound is partly based on valuation terms, which have historically proven very resilient at levels near or below \$1.40. Another factor is the relative resilience of the UK economy. Even though sterling has recovered in the past two months, there is some probability of 'Brexit' already in the price. So a referendum Yes to the EU could see sterling rallying back to \$1.55 and above €1.40 in the short term.

Given medium-term concerns over the trade deficit, I do not foresee the pound appreciating much further than that for now.

Should the UK vote to leave, sterling volatility would rise to new highs but the currency would not drop cataclysmically. The UK and its European partners would have an interest in reaching an amicable resolution that threatens neither the UK's economic stability nor the delicate balance of the entire EU.

From the point of view of world trade, Britain's interest would appear to lie firmly in staying within the EU. International trade and international trade finance are growing extremely slowly. Even on a cautiously optimistic basis, both indicators are unlikely to rise at more than a fraction of pre-crisis rates of 15-20% annually.

This would not be a propitious moment to cut loose from the EU in favour of a new focus on non-European markets. Assuming the UK votes to stay, by 2020 sales to the EU, on Equant Analytics estimates, will still represent the largest component of the country's total exports, at 43.8%. The share of exports to the larger emerging market economies – Brazil, Russia, India, China and South Africa – will still be fairly modest at 10.1%, while that with Anglophone countries, led by the US, is expected to be 14.9%.

The global outlook remains uncertain, even though I am more optimistic than most about overall prospects and expect both US and Chinese growth to surprise on the upside. Chinese data have improved slightly, supported by an improved trade position and currency weakness.

Europe's fragile economic and political equilibrium has been overly dependent on a balancing act performed by one person, German Chancellor Angela Merkel. A British exit, or indeed Merkel's own departure if she went precipitously, would cause Germany and Europe to face complex realpolitik challenges of the kind that confronted Otto von Bismarck, Germany's legendary chancellor in the 1870s and 1880s. The best outcome for European stability would lie in the UK remaining inside the EU.

Thanos Papasavvas is Co-Founder and Chief Investment Officer of Equant Analytics, and a former Head of Currency Management at Investec Asset Management and Credit Suisse Asset Management.

31 May 2016

Consequences of a non-settlement

Prime minister's miscalculations in EU strategy

David Marsh in London

The European Union's sorry state of paralysis is summed up in a tale of two speeches, three years apart. The chronicle provides ammunition for both sides in the UK's in-out debate ahead of the 23 June EU referendum.

In a 40-minute address to the Bloomberg media group in January 2013 setting down the framework for a possible plebiscite, David Cameron mentioned no less than seven times hopes for an EU 'settlement' to improve the bloc's cohesiveness. In a speech of similar length at the British Museum on 9 May, how many times did the UK prime minister utter the word 'settlement'? Not once.

In his EU strategy, Cameron has made two key miscalculations. The first – less forgivable, in view of prior knowledge of the Conservatives' predilection for knifing themselves in the back – was his belief that the referendum ploy would heal divisions within his party instead of, as is now apparent, inflaming them.

The other, more excusable, was Cameron's assumption in 2013 that, by now, Europe would have taken firm steps towards becoming a more integrated political and economic community to meet its longer-term needs, above all in holding together monetary union.

Britain, for its part, he foresaw in 2013, would be able to negotiate flexible arrangements in keeping with UK desire to retain control over key decision-making on security and economics.

The depressing reality is that, in the intervening 36 months, in nearly all important areas, Europe has made practically no progress in preparing a better long-term basis – beyond taking further steps to implement already overdue plans for 'banking union'.

Thoroughgoing treaty change on which the French and Germans can agree is still years away – and may never happen. Brexiteers say the disarray shows the EU is unreformable. Pro-EU campaigners can point out, somewhat half-heartedly, that at least it demonstrates the unrealisability of a European 'superstate'.

Europe's stasis is symbolised by the inconclusive 24 May finance ministers' accord on Greece. This allows Athens sufficient liquidity to make essential repayments this summer, but postpones until the end of the year (and probably until after next year's French and German elections) key decisions on restructuring debts. Crucially, the International Monetary Fund will not decide until end-2016 whether to take part in the latest bail-out – although this merely postpones vital questions on whether and how Greek creditors will provide longer-term support.

The challenges confronting the EU – over migration, defence, social security, jobs, investment, education, growth and money – have increased in inverse proportion to its ability to resolve them.

Cameron in January 2013 said the EU's 'main, overriding purpose' was 'not to win peace, but to secure prosperity'. He foresaw 'a new settlement subject to the democratic legitimacy and accountability of national parliaments where member states combine in flexible co-operation, respecting national differences, not always trying to eliminate them.'

On 9 May, Cameron offered no hint of any forthcoming positive changes, emphasising far more the security, defence and economic risks of upsetting the status quo.

The migration crisis and tensions over Russia and the Middle East have inevitably darkened the backcloth. In January 2013 Cameron mentioned 'security' twice and 'war' three times; in his May 2016 address there were 20 references to 'security' and six to 'war'.

In both speeches, Cameron brought up Commonwealth war cemeteries and the hundreds of thousands of British servicemen who died in two world wars. So Europe in 2016 offers a chance, perhaps, of averting some undefined tragedy, but very little hope of a better future. Hardly surprisingly, the vote is finely poised.

David Marsh is Managing Director of OMFIF.

1 Jun 2016

Africans find it hard to hate

A southern view of European unity

Peter Bruce in Johannesburg

It's hard to find an African equivalent to the resentment so many British people feel towards the European Union and other European countries. Africa's borders are largely imposed, rather than the result of wars of conquest. So Tanzanians, for example, would not have the rivalry, sometimes friendly and sometimes not, that the British have with the French or Germans. African countries simply don't dislike each other in the way Europeans do – a result of the crazy borders bequeathed by European colonisers.

Many British people harbour distrust of Europe as an idea – and a palpable hatred, especially of the EU. Africans, on the other hand, are constantly trying to celebrate their continent while lamenting its lack of 'unity'. That may be because an African Union in the bureaucratic sense has not taken shape here. But even baby steps towards a more open Africa – Ghana, for instance, has dropped visa requirements for other Africans – are given a warm welcome.

We South Africans are a little more ambivalent.

South Africans know the British – particularly the English – are not partial to foreigners. They have some sympathy for the anxieties of British and other Europeans as waves of African and Muslim refugees head their way.

South Africans, too, are uncomfortable with foreigners. Outbreaks of xenophobic violence against Somalis (formidable traders) and others who appear to have found effective ways for their communities to survive are depressingly common.

South Africans are hardly fanatical about African unity. Pretoria was quick to shoot down the notion of a single African currency, more than a decade ago, which would have been run out of Nigeria. But the South African government is working steadily towards trying to integrate industry throughout the continent, and easier trade. Getting a truck through an African border can take days, weeks in some cases.

When big and established national egos are at stake, things come unstuck. South Africa and Nigeria are geopolitical rivals, but in foreign policy questions are mainly allies. And there is a manifest rivalry between Francophone and Anglophone countries at the African Union itself. Issues of African leadership frequently follow that old colonial fault line.

Down here at the bottom of Africa, our problem isn't other people. It's ourselves and our leaders. I suppose one could say the same for the UK. What sort of prime minister would gamble his country's future on a referendum whose outcome he can't control?

South Africa is distracted by a fight over the economy at its apex of power. President Jacob Zuma's administration has stumbled from one disaster to another almost since he took office in 2009. Unemployment is higher than ever. Violent protests over the delivery of services and high fees have seen schools and university assets burned. A sound finance minister was inexplicably sacked a few months ago. The country faces a real threat of sovereign downgrades.

In reality, a UK decision to leave the EU would hit South Africa, as it would the rest of the world. As much as South Africa has pivoted to China and Russia in foreign policy, it is tightly bound to the City of London and to old loyalties, friends and experience in the UK. It exports almost no manufactured goods to its new friends in the larger emerging market economies. Those go to the US, the UK and the EU. Any disturbance of those markets would hurt.

Overall, though, for most South Africans, the British referendum is a matter of indifference. From down here, the Leave campaign smacks of Little Englanders complaining about someone else deciding whether bananas should be straight or curved.

Fundamentally, we don't care. And, frankly, we have bigger things to worry about.

Peter Bruce is Editor-in-Chief and Publisher at Business Day, South Africa's leading daily newspaper, and Financial Mail, and a former Bonn Correspondent for the Financial Times.

3 Jun 2016

Voting for downgrade

Why UK outside EU would lose triple-A rating

Moritz Kraemer in Frankfurt

After a vote to leave the European Union, fulfilling the UK's external funding needs would be a challenging task. Britain's annual current account deficit, almost £100bn, is the world's second largest, after that of the US. At over 5% of GDP, it's the highest British deficit since records began.

Jitters among foreign creditors if negotiations with the remaining EU get messy would have a self-reinforcing negative financial and economic impact.

Reflecting a probable post-Brexit climate of economic vulnerability and political uncertainty, S&P has decided that, if Britain opts to leave, we would downgrade the UK's triple-A credit rating. This would reduce the 13-strong group with this top-notch status – currently Australia, Canada, Denmark, Germany, Hong Kong, Liechtenstein, Luxembourg, the Netherlands, Norway, Singapore, Sweden, Switzerland and the UK – to 12 countries.

One way of measuring vulnerability is to analyse an economy's annual gross external financing needs, defined as maturing long-term debt and the stock of short-term debt of the private and public sectors, including the banks, as a share of current account receipts and official gold and foreign exchange. The UK score is 755%, the highest among all 131 sovereigns rated by S&P Global Ratings. Among the G7 leading advanced economies, the US and France, with the next least favourable rankings, have scores of 318% and 316% respectively.

Compounding uncertainty about post-Brexit developments is the Brexiteers' disagreement about what should substitute for the status quo. There is simply no Plan B that all those wishing to leave the EU would wish to endorse.

The rifts in the ruling Conservative party, and UK society at large, will linger beyond referendum day. A Brexit vote would not close the controversy or heal old wounds. There would be a bitter debate on what should happen next. Domestic politics could become still more antagonistic should a decision to leave prompt a resurgence of the Scottish independence movement.

A post-referendum British government would have difficulty coming up swiftly with a consensual proposal for a new relationship with the EU. The position on the European side wouldn't be much better. Concerns about further EU disintegration could lead to a rather tough stance against the UK's aspirations, whatever they might be.

European policy-makers would be keen to discourage other member states from contemplating an exit. A highly beneficial deal for a departing UK could further invigorate nationalist and eurosceptic parties elsewhere in the EU, so this reinforces other governments' reluctance to accommodate UK wishes.

Assuming negotiations bring a successful accord, the agreement would need to pass not only the House of Commons, but also the parliaments of each of the 27 remaining member states. Some of those may choose to put the UK treaty to referendums, with uncertain outcomes. Maybe the UK would have to vote in another referendum to give legitimacy to an agreement with content that would have been unknown in 2016.

Uncertainty about Britain's future status would increase hesitancy among both financial and entrepreneurial investors. For example, according to an S&P survey, more than nine out of 10 UK infrastructure investors believe Brexit would negatively impact their investment decisions.

More polarised domestic and European political circumstances after a Brexit vote would pose risks for effective, transparent and predictable policy-making. This would raise questions about economic growth and the balance of payments – all detrimental to sovereign creditworthiness.

Moritz Kraemer is Global Chief Rating Officer, Sovereign Ratings, at S&P Global.

4 Jun 2016

Leave does not guarantee leave

Referendum shows limits of British democracy

Brian Reading in London

If the Brexiteers win the 23 June referendum, we still won't know the next day whether the UK will leave the EU. The 2015 Referendum Act does not bind the government to the outcome. Parliament is sovereign, not the administration.

Even if the government accepts the result, it still has to get the necessary legislation through both houses of parliament. As the then Labour government advised of the 1975 referendum on whether to stay in the Common Market, 'The British parliament in Westminster retains the final right to repeal the Act which took us into the Market on January 1 1973.'

If the result in three weeks is a landslide on a high turnout, the government could perhaps push exit through parliament. But such an outcome is unlikely. Following a marginal victory on a low turnout, Prime Minister David Cameron could not get a Leave Act through, and probably wouldn't try.

The referendum issue has driven a wedge between MPs and voters – revealing Britain's own democratic deficit.

Opinion polls have Remain and Leave running neck-and-neck, at a little more than 40% each of the popular vote. Don't knows are 15% to 20%. But most MPs do not reflect this grass roots opinion. The 650 members are split 70% Remain, 20% Leave and 10% unknown.

This shows some democratic shortcomings behind the UK's first-past-the-post electoral system. At the 2015 general election the Scottish National party with 4.7% of the vote won 56 seats. The Liberal Democrats got 7.9% of the vote and eight seats. The UK Independence party collected 12.4% of the vote and one seat.

The referendum is a single constituency first-past-the post system. In 2015 SNP and Lib Dems' combined votes were 3.9m, while UKIP got 3.6m votes. If all SNP and Lib Dem supporters vote Remain, and all UKIP supporters vote Leave, Remain gets only 300,000 more votes than Leave. But the corresponding MPs from these three parties are 64 to one against 'Brexit'.

Tory MPs are split 50% Remain, 40% Leave and 10% unknown. Party members seem to be split 40% Remain and 60% Leave. The disparity between the MPs and the party membership is greater higher up the party hierarchy. The Cabinet is split between 23 who wish to remain against seven Leavers. Career prospects, patronage and bets on a Remain victory all accentuate the cleavage with the grass roots.

The Labour wedge between party and people is in some ways still greater. Remain is supported by 215 MPs and Leave by seven, with 10 unknown. Yet Labour voters seem split 70% Remain to 30% for Brexit.

A simple calculation supports the poll findings of a close race. If each party's 2015 votes are allocated according to their Remain/Leave shares, the result will be 49.5% for Remain against 50.5% for Leave. Compiling MPs' known preferences reveals a quite different result: 453 for Remain and 147 for Leave, with 50 unknown.

In the event of a pro-Brexit vote on 23 June, Cameron's game plan must be, on the plausible assumption that his prime ministership survives, to pay lip-service to the result and start negotiating divorce terms without seeking parliamentary approval for a UK departure.

To do otherwise would split the Tories and lose the parliamentary vote. Negotiations could take two years or more. They would probably be onerous. The 2016 referendum result would be deemed invalid because the public did not and could not know the consequences.

Another referendum would be called. Elite casualties, as at Agincourt 600 years ago, would litter the bloody field. Leave would win the referendum battle but not the fifty years European war.

The public were told by both sides their decision was the most important in our times. They would be furious to discover it solved nothing. Not much of a victory for democracy. But then it takes a referendum to show the system we have is pretty threadbare.

Brian Reading was an Economic Adviser to Prime Minister Edward Heath and is a Member of the OMFIF Advisory Board.

7 Jun 2016

We Poles know about shifting borders

Aligning European footballing and political maps

Pawel Kowalewski in Warsaw

Exposing political decisions to the will of the people can be risky. A British decision to leave the European Union on 23 June would probably lead to the UK's disintegration. Keeping pro-EU Scotland inside the UK will be difficult if the English vote for 'Brexit'. Contagion could spread to other parts of the EU.

The detachment of the continent's largest financial centre from the world's largest economic area sounds frightening. But far more dangerous would be to ignore the people. The EU has been somewhat impervious to electorates' needs. So it's no bad thing for the oldest modern democracy to remind us that politicians have to heed the citizens.

No one can predict the result. Football matches can affect polls. In 1970, England's World Cup quarter-final loss against West Germany on 14 June contributed to Prime Minister Harold Wilson's surprise election defeat to Edward Heath four days later. How will the English react if a controversial continental refereeing decision ends England's European championship campaign in the game against Slovakia in St Etienne on 20 June? London's tabloids will not be kind to Europe the next day.

Perhaps the slicing up of the UK into its constituent parts reflects the march of history. As a boy growing up in Poland, I was surprised to learn from my parents that England was not a separate country, even though it had its own soccer team like Scotland, Wales and Northern Ireland. My father drew me a copy of the Union Jack to explain.

We Poles are a bit blasé about changing borders. The Polish Lithuanian Commonwealth lasted four centuries, then disintegrated. Poland disappeared from the map for 123 years. After the second world war, my country moved westwards, but somehow became part of eastern Europe.

Up to 1990, Poland had three neighbours: the so-called German Democratic Republic, Czechoslovakia and the Soviet Union. Within 27 months, every single neighbour had disappeared, replaced by seven new ones: Germany, the Czech Republic, Slovakia, Ukraine, Belarus, Lithuania and Russia (Kaliningrad). No wonder many of my friends have problems answering their children's geography tests.

European integration has brought benefits, but the continent's mood seems to have reached a blurred line beyond which European values yield to national ones. The Brits complain about migrating Poles abusing their social system. Poles reply that the UK is benefiting from the influx of an educated workforce without paying a penny for it. Only a decade ago, the mood was different, with the two countries focusing on the mutual advantages, not the drawbacks, of this large labour transfer.

European disintegration has often been painful if not explosive in recent decades; only the 'velvet revolution' separating the Czechs and Slovaks has been comparatively tension-free. If there is a post-Brexit risk of a more general break-up, Europe should adopt a British approach. Coolness and pragmatism will be required. However, I fear animosity and disruption are more likely.

Some continental capitals have shown a somewhat overemotional reaction to Poland's latest swing towards nationalism. Britain by contrast has been a great deal more relaxed. The overall European response to Polish events sets a poor precedent to how the EU would react to Brexit.

Knowing how frequently they change, we Poles like to collect historical maps. What happens if England wins the European championship final in Paris on 10 July, 17 days after their fans voted for Brexit? Parents will have to explain to their offspring a new kind of European champion, one that's moving out of the EU. Yet there will be some comfort for schoolchildren. The political and footballing maps of Europe will at last be moving into alignment.

Pawel Kowalewski, a Member of the OMFIF Advisory Board, is an Adviser at the National Bank of Poland.

9 Jun 2016

German worries over ‘Brexit’ laid bare

Steinmeier says Europe faces ‘crisis’ if UK leaves

David Marsh in Berlin

The full extent of Germany’s worries about a possible British departure from the European Union was laid bare in Berlin today when Franz-Walter Steinmeier, the German foreign minister, said Europe would plunge into a ‘deep crisis’ if the UK left.

Steinmeier’s warning, in a speech to around 300 top representatives of large German family-owned companies, marks the strongest German statement so far about the dangers to European cohesion of a British No to the EU on 23 June.

The foreign minister’s remarks stand in contrast to the much more cautious statements by many senior European politicians, who have made clear in recent weeks that they wish Britain to stay in the EU but leave open the path to greater European integration if the UK exits. Steinmeier, whose Social Democrat party is the junior partner to Angela Merkel’s Christian Democrats in the Berlin coalition, departed conspicuously from such diplomatic language.

Steinmeier is saying on a wider stage what many German officials and company representatives are expressing in private – in particular regarding a possible coalition of economic policy interests against Germany that could gain ground in France, Italy and Spain if the UK leaves.

Speaking to the annual meeting of the Family Company Foundation, Steinmeier said it was ‘not very realistic’ to think that EU integration would simply go on as before with remaining members if Britain stepped away. ‘One reason why the integration process would be likely to falter is because the arguments we hear in Britain [by Brexit supporters] are also those heard in other parts of the EU,’ Steinmeier said.

In past decades, the foreign minister added, echoing the celebrated slogan of post-war European diplomat Jean Monnet, Europe always managed to develop in a positive way through crises. However, he said he was no longer sure whether this would be the same in the future.

Steinmeier’s words went much further than the more cautious Merkel, who in earlier remarks to the conference said she hoped Britain would stay in the EU to continue co-operation over many European and international questions, including trade liberalisation to bring down unemployment. However, the German chancellor stopped short of saying what she thought would happen if Britain decided to leave.

The foreign minister said Britain would also be weakened by Brexit and highlighted a threat to the Northern Irish peace process if the land border between Northern Ireland and the Republic of Ireland was reimposed. He said that David Cameron, the British prime minister, had gained concessions, including on immigration, in the February renegotiation. But he complained that diehard eurosceptics were treating the issue above all emotionally and not listening to reasoned facts and arguments.

David Marsh is Managing Director of OMFIF.

10 Jun 2016

Tory splits will only get worse

Over Europe, history can repeat itself

Meghnad Desai in London

As the European Union referendum campaign heads towards a nail-biting finish, amid an opinion poll swing towards the Leave camp, we must be aware of the probable asymmetry of interpretation of the 23 June result. Unless the Remain victory is particularly decisive, with a margin of more than 10 percentage points (much less likely than three months ago), agitation for 'Brexit' will not go away.

Just look at the Scottish Nationalists' continued activism, despite the 55%-45% score in favour of the status quo in the September 2014 Scottish referendum. If Brexit wins even by one percentage point, the Leavers will claim they have a democratic mandate.

The losers are bound to cry foul. The side that comes off worse will blame it on voter registration extension, the use of public money, outside interference, lies, racism, and so on. Either way, political convulsion will ensue. When the campaign began, with members of the cabinet lined up against each other – Eton and Oxford ties notwithstanding – the Conservative party's 'in' and 'out' groups still seemed likely to kiss and make up after the vote. But the insults and allegations each side has hurled at the other during the debate make this more stable outcome less likely.

David Cameron, the British prime minister, arranged the referendum because he vainly hoped it would heal the Conservatives' split. The party's 'eurowound' has been festering since the evening in November 1990 when Kenneth Clarke, a leading Tory pro-European, advised Margaret Thatcher not to stand in the second round of the leadership challenge against her, leading to her resignation.

Thatcher's supporters ever since have blamed her demise on the party's European wing. Conservative eurosceptics made life miserable for John Major, Thatcher's successor – despite his election victory in 1992. The Conservatives ran through three more leaders before Cameron came on the scene and achieved a partial election win in 2010 and a majority in 2015. He wanted to stop his party's obsession with Europe. Like Harold Wilson in 1975, Cameron thought a referendum would bridge party differences. Wilson succeeded, though he retired as prime minister within a year and then the Labour party split in 1980.

Will the Conservatives do the same? Let us suppose there is no formal break. But if Cameron carries on as the party's leader either after or without a challenge, governing will not be easy. The Tory majority is thin and less than the size of the troublesome squad of Brexiteers. They could defeat the government repeatedly. One way out would be if the Blairite wing of the parliamentary Labour party supports the Cameron government either informally or formally before the next election in 2020.

If rebellious Conservative backbenchers make legislation impossible (rather like what has happened to Prime Minister Narendra Modi's government in the Indian parliament), the impasse will be difficult to resolve. Parliament can no longer be dissolved at the prime minister's pleasure. The Fixed Term Parliament Act passed during Cameron's 2010-15 coalition requires a two-thirds majority either for carrying a no-confidence motion or for bringing forward an election.

So parliament could drift impotently until May 2020 unless there is a formal realignment, as happened twice before – in the Conservative schism over the 1846 repeal of the corn laws and with the Liberals' cleavage in the 1880s over Irish home rule. Europe is a big enough issue for history to repeat itself. Over and above whether the UK splits with Europe, we should expect divisions within the Conservative party to come ever more explicitly to the fore. It may not be Armageddon on 24 June – but it will not be a pretty sight.

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14 Jun 2016

Disillusioned Europe

Whatever happens with UK, euro centralisation unlikely

Sam Fossum in London

As Britons prepare to vote on 23 June over the UK's European Union membership, a Pew Research Centre survey finds euroscepticism growing across Europe. People across the continent are becoming increasingly dissatisfied with the EU's handling of key issues.

Whether Britain chooses to leave or remain, the Pew survey makes clear that further European centralisation would be deeply unpopular. A 'United States of Europe' belongs to the realms of unreality.

Europeans firmly believe a 'Brexit' would harm the EU. Excluding Britain, a median of 70% of the nations surveyed believe it would be bad for the EU if the UK decided to leave – 16% say it would be a good thing. Given the EU's current unpopularity, a vote for Brexit might trigger a domino effect that unravels the EU.

The discussion around Britain's referendum makes clear that the EU is in limbo between the contrasting perspectives of a centralised federation and a more devolved trading union. This lack of unity of purpose is at the heart of the European problem.

Across the 10 EU countries surveyed, a median of 51% have a favourable view of the Union. In six out of the 10 countries more people want power devolved back to national parliaments. Two-thirds of Greeks and British, 68% and 65% respectively, want some power returned to their national governments. Less than a quarter of the public in seven of the countries believe in greater EU centralisation. In Britain only 6% of respondents want more power for Brussels. The highest level of support for a more centralised Europe is 34%, in France.

Sampling 10,491 respondents in 10 EU nations – the UK, France, Germany, the Netherlands, Sweden, Italy, Spain, Hungary and Poland – the Pew survey was conducted between 4 April and 12 May 2016. These countries account for 80% of the EU's population and 82% of its GDP.

In the past five years public support for the EU has fluctuated, falling sharply after tepid economic growth in 2012-13 and briefly rebounding in 2014-15. The 2016 Pew survey shows support for the European project falling once again.

The EU's staunchest support comes from Poland and Hungary, where 72% and 61% of people respectively support the institution. Elsewhere support is lacklustre, with 27% of the Greeks, 38% of the French and 47% of the Spanish viewing the EU favourably.

Since 2015 EU 'favourability' has dropped 17% in France, 16% in Spain and 8% in Germany. Down 7% from last year, 44% of the British view the EU favourably. Higher than the rest of the UK, 53% of Scots have a positive opinion of Brussels.

In every country surveyed overwhelming majorities are dissatisfied with how Brussels has handled Europe's migrant crisis. In Greece, Sweden, Italy and Spain more than three-quarters of the population disapprove. The EU's strongest support for how it has dealt with the refugee crisis is 31% in the Netherlands.

The economy is another area where people across the EU believe it is performing poorly. Nine out of ten Greeks disapprove of the EU's job in dealing with European economic challenges. More than two-thirds of Italians, French and Spanish similarly disapprove. In the UK and Sweden more than 50% of people are dissatisfied. Nowhere does a majority believe the EU has handled the economy effectively. Its strongest approval on economic issues is 47% in both Poland and Germany.

Central to the British debate on whether or not to leave the EU is the issue of greater or less European centralisation. Even though David Cameron, the British prime minister, secured assurances that the promise of 'ever-closer union' will not apply to the UK, the EU's future direction remains unknown.

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17 Jun 2016

Wisdom of the British crowd

Metamorphosis of Utopians and Realists

Jürgen Krönig in Chicago

With the barrage of facts, opinions and predictions on the European Union swirling around the UK, the great British public got the referendum debate it asked for. Months ago, whenever the EU was raised in discussions on television or radio, voters voiced a constant complaint: ‘They’, government and the politicians, were not giving ‘us’ the information needed to make an informed decision.

The result was a relentless campaign that frequently mutated into a spiral of apocalyptic warnings of impending disaster should Britain either leave or stay.

The hyperbole has now been muted, though it took the appalling murder of a British Labour MP to bring this about. Yet behind the rhetoric and invective lies an intriguing metamorphosis. In the epic clash of Realism versus Idealism, of hardnosed pragmatism versus dreamy utopianism, Britain’s EU debaters have switched sides.

Traditionally the Integrationists played the role of the Utopians, while Eurosceptics were the Realists, pointing to the risks of untested European arrangements. However, today’s Remainers are the coolly calculating Realists. The Leavers perform the part of the Utopians. Eyes gleaming, they paint a golden future of Britain freed from the shackles of Brussels bureaucracy.

The Realists-Remainers espouse the economic argument for staying in, receiving support from worldwide financial bodies – even though the establishment institutions’ forecasting record has often been woeful.

Integrationists in Germany have always loved the idea of a United Europe. The post-second world war European solution offered redemption and a new beginning after the catastrophe of National Socialism and the Holocaust. Even today, Germany embraces more European utopianism than elsewhere, reflecting a German tendency to build ‘castles in the air’ and forget about reality, as Chancellor Angela Merkel’s refugee policy proved.

In Britain, the lure of the European concept was always much weaker. Britain never quite forgot the lessons of history. The British nation state in 1945 triumphed over a totalitarian challenge from the continent. EU evidence over decades shows how the democratic principle cannot easily be transferred to a transnational entity.

The euro’s creation was the final triumph of Integrationism but could also lead to its extinguishment. Most former British supporters of the euro today keep quiet about their previous enthusiasm. No wonder Remain campaigners avoid any promises or daring designs for more integration. Instead they rely heavily on the fear factor, on worries about the economic consequences of a jump into the unknown. This appeal to British voters’ self-interest is an understandable and rational strategy, successful many times in the past.

But there is more to the referendum than economics. One the one hand, the enemies of the West – whether in President Vladimir Putin’s Russia, North Korea or Isis, even parts of the Chinese leadership – would see ‘Brexit’ as the clearest evidence the democratic world is beginning to fall apart.

On the other, the British believe the nation state underpins the principles of national self-determination and accountability of their rulers with much greater force than the EU system of friendly co-operation, underpinned by shared sovereignty and a powerful European bureaucracy.

Whatever happens, that institutional power in Brussels will need to be reined back. British voters form one of the more mature electorates of the western world, proof that ‘the wisdom of the crowd’ is worth listening to. After Thursday we will know what the British are saying. Europe will need to heed the message.

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22 Jun 2016

No more taboos

Now we'll find out if it's Adieu

Jacques Lafitte in Brussels

The negative differences are numerous and clear in the UK: divisions resembling all-out civil war in the Conservative party, with the Labour party in not much better shape. Emotional insults between protagonists, an unprecedented amount of exaggeration (on both sides), and in the end a political murder. For an outsider it is hard to see British democracy other than seriously weakened.

Across the Channel we have watched the European Union plebiscite unfold with worry. If 'Brexit' wins, my fear for the last three years, we can safely expect a fiesta for eurosceptic parties over the summer, with Vladimir Putin happy to propose vodka as an alternative to champagne and spumante.

Yet there is another side to the Brexit campaign that I consider historic in nature and may turn into a blessing for the EU, possibly even the cornerstone of its revival: the end of taboos.

Take the enlargement taboo. Just a few years ago, France was severely criticised for daring to decide to hold a referendum on every EU enlargement beyond Croatia. Of course the French had Turkey in mind. At the time Britain was Turkey's staunchest supporter and France's strongest critic.

Now Britain has caught up with France, with British political leaders insisting Turkey will not join the EU for a few hundred years.

It is not just the enlargement taboo that recent developments have swept away. The EU is in the middle of an intellectual revolution on a scale I personally think is bigger than the Maastricht era. In 1991-92 the debate was about moving to a single currency. Now it is about survival. Life matters more than money.

The Brexit debate has acted as a huge wake-up call for people who are not ready to leave the EU. Those who already wanted to leave did not need one. When it comes to survival, the gloves are off.

Another taboo that has gone is the position of the European Commission president as being like the Pope or the Queen – above criticism. Last week, the must-read Brussels online and weekly journal Politico took on Jean-Claude Juncker, the Commission president. He was 'increasingly on the sidelines', had 'no strategy', ran a 'PR Commission', was 'plagued by health problems' and insiders would 'not remember the last time they saw him'. Politico journalists brought much fresh air to EU reporting when they arrived in Brussels a year ago. But the violence of this attack still took everyone by surprise.

More taboos may come under scrutiny, including free movement and the UK's right to veto what it dislikes. If Britain leaves, we will soon know if there is a nirvana of new economic energy and growth in Britain isolated from the single market. If that happens, and the UK bestrides the world as in the days of empire and the sterling area, Brexit will be vindicated and other EU nations will follow. It will be adieu.

If foreign investment into Britain goes into reverse, if the housing market takes a hit, if high-end services relocate to Dublin, Frankfurt or Paris, and if unemployment grows by a few hundred thousand, very different conclusions will be drawn.

David Cameron may go into the history books for reasons far less glorious than the ones he imagined. But the prime minister will have fulfilled one promise he made in his London speech in January 2013 setting out the referendum plan. He said Europe would have to change. That has happened.

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22 Jun 2016

SECTION THREE

REMAIN

Leaving the EU could have an explosive effect, according to the Remain camp, on an already fragmented EU, possibly leading to its unravelling. The shock of departure coupled with the challenge of renegotiating terms with the rest of Europe, would expose Britain to deep-seated recession and political volatility. Britain provides a stabilising political and diplomatic influence to counterbalance France and Germany. UK departure would deprive the EU of Britain's diplomatic advocacy. British, European and international security would suffer. Europe needs Britain to remain flexible, versatile and strong – and to have a better chance of achieving reforms.

Separating fact from illusion

British EU departure would strengthen protectionism

Otmar Issing in Frankfurt

I admire the open debate in Britain on the pros and cons of leaving or staying in the European Union. But on EU questions the UK has always shown a lack of both interest and knowledge. When in London, I never miss the opportunity to ask people, especially taxi drivers, their opinion on 'Europe' – but I have given up including the euro in those questions.

I must make one point clear. The EU – and, even more so, economic and monetary union – is a long way from being in perfect condition, or even on the way to completion. But when it comes to the 23 June referendum, I hope British voters' fear of uncertainty will prevail over illusionary hopes of Brexit. Plainly, a UK departure would have repercussions for the whole continent.

The analogy with non-members Switzerland or Norway is misguided. Whether they are in or out of the EU makes little difference to the way the rest of the continent is run. By contrast, the EU after Brexit would be significantly different; it would be deprived of British pragmatism, and more open to further regulation and centralisation.

We would see a strengthening of protectionist attitudes that are popular in France and other countries. From an economic point of view, EU members would of course wish to maintain liberalisation in trade and capital flows. But politically the issue is far less straightforward, in view of widespread sympathy for protecting national markets.

The British electorate must be very confused – it is exposed to contradictory calculations on the consequences of Brexit, ranging from tremendous gains in welfare to very gloomy scenarios. The ultimate result looks likely to reflect voters' long-held prejudices rather than rational arguments.

The No camp sees Britain outside the EU once again enjoying full sovereignty, relieved from European regulatory burdens, stopping EU budget payments and regaining full control of its borders. At the same time, the UK would retain unlimited access to the single market. This is indeed a rosy scenario – but the reality may be more nuanced.

The British make a great deal out of no longer being bound by the commitment to 'ever closer union' – and the UK is not only country that debates this point. But it needs to be put into context. Because of monetary union's present problems, even those countries that (unlike the UK and Denmark) do not have a legal EMU opt-out have shelved, in practice, the obligation to join the euro. This could change if EMU gets into better shape and non-euro currencies themselves face waves of speculation and volatility. In due course, I believe euro membership will shift from a legal obligation to a question of national interests.

In many fields, we need to separate fact from illusion. The view that freeing the British from rigid European regulation would boost UK economic activity appears flawed. According to the Organisation for Economic Co-operation and Development, the UK's labour and product markets are, respectively, the EU's least and second least regulated. Further gains from leaving the EU must be relatively small.

Britain had the highest growth among the Group of Seven countries over the past three years – the result, perhaps, of its ability to enjoy the best of both worlds outside the euro but inside the single market. Moreover, EU membership has not prevented sterling from gaining importance in the international monetary and financial system. On the other hand, it is illusory to think that London's status as a financial centre would benefit from the British imposing sovereignty on regulation.

Referendum uncertainty has already depressed sterling. The UK has attracted huge amounts of foreign direct investment, partly because of EU membership. If UK trade suffered outside the EU, Britain's sizeable current account deficit might become a still bigger problem. The balance of risk and reward points to one firm conclusion – for its own good, and for Europe's, Britain should stay in.

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2 Mar 2016

Short-lived triumph if Britain leaves

Brexit could damage achievements UK takes for granted

Michael Stürmer in Berlin

No country in Europe has a greater interest than Germany in keeping Britain in the European Union. Industrialists, bankers, politicians, commentators: whatever sets them apart in the real world, they all see 'Brexit' as a mistake of historic proportions.

In a time out of joint, as Shakespeare's Prince of Denmark observed, Europe risks becoming unhinged. Stand-offish as never before in the last half century, Britain can make or break the EU. The beautiful maiden from Greek mythology is not in good shape. Her reputation leaves a lot to be desired. At the least, high-class cosmetic surgery is required. Long before things get better, they can get worse.

You can imagine the champagne corks popping in the Kremlin if the great British public offers President Vladimir Putin European disunity on a silver platter. The most obvious challenge to Europe's peace and wellbeing stems from Putin's annexation of Crimea and its aftermath. Russia is conducting a proxy war against Ukraine, using not so subtle threats against Russia's Baltic neighbourhood: non-aligned Sweden and Finland, and Estonia, Latvia and Lithuania, uneasy members of Nato.

For most of post-war history, the US has been the balancing force from across the ocean. Britain has been strongly supportive in Nato and in global crisis management. Europe, for all its weaknesses, has been a force multiplier. All that is now at risk.

As a seasoned US diplomat has stated, the chances of war by accident or by design are now as great as they have been for 50 years. This is not the time for schoolboy games.

The changes to help Britain agreed in Brussels are by no means earth-shattering. Both sides got a face-saving bargain. 'Ever closer union' no longer applies to Britain – but even Chancellor Helmut Kohl, as he once told me, knew the phrase was not worth pursuing to its extreme, since it could tear the European Community apart.

The jurisdiction of the European Court of Justice over the British parliament remains a sticking point. Absence from the euro area and the Schengen agreement underlines the country's semi-detachment. Yet if the UK were to leave altogether, that could jeopardise many achievements Britain and other countries take for granted. Little Englanders would have a moment of Schadenfreude, but triumph would be short-lived. A protracted economic, political and financial Ash Wednesday would follow.

No one in Nato or the EU wishes to destroy what has served us well. Yet the West, as we have known the Atlantic system for seven decades, could disintegrate. An edifice would shatter that has provided half a century of peace and prosperity to western Europe, extended since 1989 to the eastern part of the continent. Old demons would rise from shallow graves. The refugee crisis provides a foretaste of future trouble.

Brexit would reverse the decades-long Stille Allianz ('silent alliance') between Germany and Britain. It would shake the foundations of Pax Americana in Europe and the world. It would change the overall balance between Russia and the West. And it would disrupt the equilibrium between Germany and the rest of continental Europe.

What is at stake in Britain – in or out – is next to nothing compared with the wider international implications. Given the troubled state of the world, with every crisis driving the next one, Britain's referendum is subject to the iron law of unintended consequences. Disasters much larger than Brexit are waiting to happen. As the Bible says, there is a time to build and a time to destroy. Those backing Brexit are not seeking destruction, but they might achieve it.

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4 Mar 2016

Where the grass is greener

In a divorce, the lawyers benefit

Gary Smith in Hong Kong

Some campaigners are tempted to look at the issues behind Britain's in-out EU referendum in homely down-to-earth terms. The comparisons can be useful – so long as we don't take them too far.

Leading members of the 'leave' campaign suggest, for example, that the UK would never have decided to join the EU if we knew how things would turn out. This is of only limited assistance. It is an argument for not getting married, not an argument for getting divorced. These are not the same thing.

We can only speculate on the longer-term contentment resulting from divorce. We can be a bit more scientific when assessing the short-term costs. Economic value is usually transferred from the unhappy couple to lawyers. My fear is that, if the UK were to leave the EU, there would be a similar outcome. Whatever the exact result, both sides would suffer financial loss. Lawyers would be the main winners.

Whatever your predisposition on the EU question, you can find a long-term economic analysis that suits your bias. The more I read on these longer-term scenarios, the more uncertain I become. It reminds me of the alarmingly diverse economic analyses from the opposite camps in the run-up to the Scottish referendum in September 2014. The watchwords seemed to be: exaggerate, extrapolate, and then use the power of compounding to deliver a really knock-out blow.

Looking at the shorter term, by contrast, there seems to be general acceptance, including among Brexit proponents, that departure would bring costs. Uncertainty about the country's future European and international ties would hit economic activity.

Uncertainty might prevail for some time. Existing arrangements for a nation wishing to leave maintain that exit negotiations should be completed within two years, so that departing states can benefit from the rule of needing only majority decisions rather than unanimous agreement from the remaining EU members.

But two years would probably not suffice. General elections in Germany and France next year will hold up decision-making. Failure to complete an exit agreement within two years would lead to additional complexity. Some studies have suggested it might take 10 years.

In view of substantial disagreement on the likely longer-term economic consequences, I believe the decision-making process should give greater weight to the short-term costs.

Here, another home-spun metaphor may be helpful. Will voting to leave or stay affect whether the grass in the UK garden is greener by 2030 compared with continental Europe?

Consider a decision by a UK homeowner to move between similar houses, priced more or less the same, on different sides of a street, to exchange an easterly aspect for a westerly one. In London the cost of this property swap could be 10% of the value of the new house, just to enjoy the sun in the afternoon rather than the morning. I don't know which aspect is better for growing a back-garden lawn. I do know that I don't want to pay that kind of money to find out.

Rational people don't make this kind of house switch. They usually do this only when the overall case for moving home overwhelms the consideration of transaction cost. Devotees of the 'leave' cause will have to convince the electorate that they have worked out the balance, and that it is in the UK's favour – and then begin to explain it clearly.

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13 Mar 2016

Bidding farewell to disappointed friends

Act of betrayal and leap into the unknown

Laurens Jan Brinkhorst in The Hague

Many people in the 'leave' camp will never understand that the UK has become a well-respected, but medium-sized European country, dependent for much of its future on close alliance with its continental friends. Boris Johnson, the mayor of London, by his belated conversion to the 'Brexit' camp, has committed an unforgivable act of betrayal to his country, to the City of London and to his many admirers.

Johnson of all people should know that shared sovereignty in Europe is much more relevant than the theoretical sovereignty of an island country. His cosmopolitan air veils an anarcho-conservative whose desire for self-aggrandisement may reverberate against him. His only chance now is to become the prime minister of a Disunited Kingdom after the departure of the Scots, the Northern Irish and the Welsh.

Ahead of the 23 June vote, all Britain's friends inside and outside the EU have appealed to let reason prevail. America, Britain's oldest ally in times of war and peace, has pleaded for the UK to stay in. Leading Commonwealth countries like Canada and Australia have made their voice clear. For a country like the Netherlands, Britain's continued membership is essential for reasons of European culture, history, economics and balance of power. We all emphasise one seminal fact: the UK is a more important player inside the EU than outside.

All this matters because Europe is confronted with enormous challenges around its borders. The refugee crisis is at its height. We are surrounded by a 'circle of evil'. An undeclared war simmers in Ukraine. The Crimean peninsula has been annexed by a Russian usurper. The Middle East is in flames. Libya, in the south, is a hotbed of terrorists and jihadists.

Against this background, the threat of a British departure might appear a secondary matter, but it is not. At this critical juncture, Britain's continental friends would prefer not to have an ally and an important member of the EU tearing itself apart.

It does not have to end like this. Europe's leaders during the last months have spent many precious hours trying to accommodate Prime Minister David Cameron's wishes to confirm British 'special status' within the EU. The outcome was honourable, though not spectacular. More could not have been expected.

Unfortunately, a succession of British leaders has lacked the political courage to tell their compatriots the truth. Back in the 1960s the politicians never explained European Community membership as a fundamental political choice for the future, but only as an economic necessity: joining a 'common market'. All this has led to a continued 'mismatch between political judgement and eventual, irresistible fact', as Hugo Young observed in his masterful *This Blessed Plot*.

For many years Britain has been suffering from post-imperial depression. It is no longer the world power of a century ago. Nostalgia for a past that no longer exists breeds myopia, a tendency to look inwards, and an outdated sense of superiority. In reality, Britain must decide whether it can help determine that Europe as a whole remains a powerhouse of ideas and civilised behaviour, as well as a relevant political and economic factor in an age of new world powers.

Let there be no misunderstanding: Brexit would spell Britain's full departure from all the EU's institutions. This would mean no participation in the European Council and Council of Ministers, where all important European decisions are taken. No presence in the European Commission to check others' observance of European obligation. No British voice in the European parliament. No judges in the Court of Justice to protect the rule of law.

Britain's fate will be splendid isolation from its disappointed friends – and a leap into the unknown.

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14 Mar 2016

Chinese worries about Brexit

Running away from Europe on fire

Ben Shenglin in Beijing

Britain has done a wonderful job in negotiating the best terms to stay in the European Union with ‘special status’. But perhaps it has been too skilful. Continental Europeans (and the rest of the world) may perceive the Brits as too clever by half.

Britain has done a wonderful job in negotiating the best terms to stay in the European Union with ‘special status’. But perhaps it has been too skilful. Continental Europeans (and the rest of the world) may perceive the Brits as too clever by half.

The debate over British membership comes at a bad time. The ‘House of European Union’ is on fire. The last thing the other residents need is a footloose member of the community heading for the exit.

In my early years as a student, and later as an executive working for western companies, I was taught that, when there is a fire, true leadership dictates that you run towards it and try to put it out. You don’t run away from it.

From an Asian perspective, loyalty and trust are considered critical for solid and sustainable friendship. In the West, too, there is a saying: ‘A friend in need is a friend indeed.’

Britain has undoubtedly been doing what it considers best for its own short-term national interest. Yet no one should underestimate Brexit’s potential negative impact on Britain’s relationship with Europe and its wider international reputation.

Most of us like smart people around us as friends. Yet we don’t want them to be over-clever. We are wary of crafty people who take advantage of others’ vulnerability. We cherish friends who are reliable and helpful.

Of course, the debate over Britain and the EU has to be put into perspective. When you type ‘tuo-ou’ (脱欧), the invented Chinese expression for ‘Brexit’, into Baidu, China’s Google, you get 5.7m hits. As a comparison, a similar Google search for ‘Brexit’ in English would lead to 25.8m items. By contrast, typing ‘lianghui’ (两会), the annual National People’s Congress meeting, into Baidu results in more than 75m leads.

These numbers indicate the relative importance of Brexit inside and outside China. Naturally enough, the Chinese are much more focused on domestic issues such as lianghui. After all, we are a large country in transition, with a lot more pressing issues to talk and worry about than Britain’s European future.

Beyond this, though, we Chinese do care about Europe and the dynamics of a possible British departure. Europe is China’s most important trade partner. China-Europe investment flows, in both directions, account for a significant part of each partner’s total. A strong and united Europe is good for China and the world.

From our distant vantage point, the Chinese are perplexed about the intricacy of the UK-European relationship. Is Britain part of Europe? Do the Brits consider themselves Europeans?

Nations do not deal with each other exactly the same way as individuals. I do not advocate it, either. Yet some government leaders, elected in democracies, focus too much on their country’s short-term goals or, even worse, their own electability. Despite these caveats, whatever Britain does in Europe has to be done with due international sensitivity.

The UK’s leaders have to engage with British voters, but they must also communicate better with continental Europeans and the wider international community. They must make clear that the British are, after all, Europeans. Most of all, they must tell the world that they will remain reliable partners.

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16 Mar 2016

Time for two Europes

Rethinking the EU – with Britain

Antonio Armellini in Rome

Britain's departure from the European Union would be a disaster for the UK, and an even greater one for the EU. Brexit could have an explosive effect on an already fragmented EU, possibly leading to its unravelling.

Keeping the UK in would be a lesser evil. Whatever the outcome, the referendum will force a deep rethinking and restructuring of the EU. The UK's role would be crucial. So I hope it remains a recalcitrant member – to help fundamentally change the Union.

For Britain, the costs of exit would not be compensated by the purported advantages. A non-EU Britain would be a middling power with limited influence. Over the medium term, its permanent seat on the UN security council would become untenable, especially if Scotland seceded. Britain is crucial for a credible European defence and security policy (and keeping an eye on French exceptionalism). Outside the EU, as President Barack Obama has pointed out, its value would be greatly diminished.

Becoming a maxi Singapore-type financial centre on Europe's outer rim would not be easy. Paris and Frankfurt would actively encourage a flight (though not a stampede) of bankers and fund managers. British support from outside the EU for a deregulated economy would cut little ice, notably among the eastern European members.

Migrants from the EU come to Britain in large numbers, but quite a few Brits live in other EU member states. Their lot could become less happy if the UK leaves. The idea that the UK could have an amicable divorce and retain access to the single market is an illusion.

All this could of course prove to be wrong. A resuscitated Commonwealth could turn into a political and economic godsend. London's role could be maintained in an increasingly fraught world. Its supremacy in finance and services could have the better of the attempted competition, and so on. Not impossible, but very unlikely.

Meanwhile, the EU is confronted by crises that threaten its existence. The euro area must somehow transform itself into a politically integrated union, or face mid-term dissolution. Allowing Schengen to buckle under would exacerbate the pan-European migrant problem and sound a death knell for the freedom of movement of people, goods and services.

The political thread joining these crises is increasingly thin. If Britain departed, the gulf between the Anglo-Saxon vision of Europe as a trade pact and the Latin-Germanic concept of a political union would widen further. Further opt-outs would be inevitable. The EU could start unravelling – not in one fell swoop, but gently, in the way of the Holy Roman Empire.

However a more positive outcome is possible. As its classical Greek meaning suggests, the crisis could provide an extraordinary opportunity. There's no longer any point attempting to reconcile supporters of an 'ever closer union' with those like the British who reject the very principle. So the time has come to move towards a radically new set-up: no variable geometries, multiple speeds and the like, but two separate and parallel Europes. One loyal to ever closer union, centred on the euro area. The other based on market liberalisation, centred on the UK.

The Europe of Altiero Spinelli and the Europe of Margaret Thatcher would co-operate within a broader framework of an EU based on market economy, democracy and human rights. At some point this would accommodate Turkey. If Britain leaves, the remaining EU could go decisively for political union, but would probably lack the imagination and will to do so, continuing to plod along in the usual muddle. If Britain stays, we will still have muddle, but the incentive to move towards two Europes would be far greater. The referendum will not have been in vain.

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18 Mar 2016

UK's nativist nationalism

When Britannia ruled the waves

Stuart Mackintosh in Washington

Americans don't know what to think about 'Brexit', if they even know what it means. Right now, the 'real America' of Budweiser, burgers and Nascar stock cars is too preoccupied by the primary election victories racked up by Donald Trump to see the populist xenophobic parallels with Nigel Farage's Strasbourg rants and the rise of the UK Independence party.

But Donald's Mexican wall matches Nigel's border barricades against Poles and Romanians; Trump's attack on Washington as the root of all evil is reflected in Farage's hatred of Brussels. There are similarities in the populist surges on both sides of the Atlantic.

Both 'the Donald' and Nigel channel the anger of lower middle class white workers upset by years of stagnant wages, worried by globalisation, and alarmed by migrants and refugees they fear will seize jobs. These US and British voters are anti-establishment and anti-politics. Both groups are defending 'us' against 'the other'.

But there is an important difference. The animus driving Brexit supporters has a longer history than the Trumpian iteration of American populism.

American policy-makers need to take a crash course in British history to understand the depth of Britain's nativist nationalist roots. Britain and England's love-hate relationship with Europe and 'the Continent' goes back a long way indeed.

Not to the 1980s and Prime Minister Margaret Thatcher's handbag-wielding at European summits.

Not to the 'Non' from French President Charles de Gaulle when Britain first tried to join the European Economic Community.

To trace Brexiters and the anti-European undercurrent, Americans should go back further still – to William the Conqueror and his victory over King Harold in 1066. To the Middle Ages, when England's kings held sway over much of France and parts of Spain. To scores of humiliating defeats of the French.

The struggle, for those in favour of Brexit, reflects centuries of clashing with Europe. Of being part of but being separate from the Continent. Brexit signals a desire to go back to a time when Britannia ruled the waves. Or at least something.

Trump wants to 'make America great again'. Eurosceptics want something similar.

The Brexit leadership and their stalwarts cannot explicitly admit as much; that might make them look foolish. But the desire to go it alone, to show those bloody Europeans a thing or two, is an emotional wish hidden behind an economic charade.

Because the anti-Europe campaign is really an emotive one, it does not fit easily within the US policy-making calculus. It leaves the American establishment surprised, their talking point memos fluttering in the wind.

A word of caution from President Barack Obama's Washington would be unlikely to help. The British dislike being lectured to by foreigners. External warnings, when the debate is about 'us' versus 'them', is hardly a smart idea. At its most basic, Brexiters are engaged in an existential argument about Britain and Europe. This is not a rational debate over economic options, pros and cons.

But irrational fears can be countered by other, worse nightmares. I expect many more attacks on Farage, Boris Johnson, the mayor of London, and their fellow anti-Europeans. Such a negative campaign – 'Project fear' as it has been dubbed – might just sway enough undecided voters to assure Britain remains reluctantly attached to Europe.

I hope the 'Britain in Europe' camp wins on 23 June. Yet, whatever the outcome, one consequence is clear. The grievances of the millions of Brexiters are too deeply rooted in Britain's history and psyche for them to stop complaining.

Stuart Mackintosh is Executive Director of the Group of Thirty, an international financial think tank.

22 Mar 2016

Escaping the trap of ‘more Europe’

Why Brussels should back Britain’s EU vision

Hans-Olaf Henkel in Brussels

The euro area saga has profound implications for the European Union, with consequences far beyond the borders of the southern countries immediately hit by the crisis. The tragedy is bleeding into Shakespeare’s homeland, contributing to the factors potentially pushing the UK out of the EU. Britain’s leaders must understand that the euro is also their problem. Non-membership of the euro doesn’t make Britain immune to the consequences of its shortcomings.

Britain’s vision for a future reformed EU, embodying the principles of subsidiarity, self-governance and strengthening the single market, represents the best strategy for a prosperous and strong Europe. So the British call for a reformed EU deserves Europe-wide support. However, the objective favoured by Britain goes against the ‘ever closer union’ embedded into the single currency by the European elites.

This misplaced political romanticism has turned out to be a trap. It has caused widespread economic misery, undermining the social fabric of many European societies. By breathing life into radical populist parties that question the benefits of European integration, Europe’s problems endanger the EU itself.

The unfortunate reality is that the single currency has long been too weak for Germany and too strong for southern Europe, including France. The one-size-fits-all monetary policy suits nobody. To overcome this handicap and to make the European economy work again, the conventional wisdom in Brussels calls for a transfer union to back the euro. Yet a centralised European political union with a common treasury goes against the interests of European economies.

The euro rescue policy is based on a blind commitment to saving the euro ‘at all costs’. This largely explains why, contrary to the US and the UK, the euro area is still awaiting economic recovery. More harmonisation, centralisation and debt socialisation are not the answer. It can be accomplished only by rejecting the failed philosophy of ‘ever closer union’, and dismantling the euro area in a controlled manner.

Britain’s newly negotiated European special status protects the UK from the principle of ‘ever closer union’. Yet the EU as a whole still adheres to ‘more Europe’ as a solution to the euro’s woes – and this seriously diminishes the EU’s attractiveness for the British public.

Many aspects of new European financial legislation and the banking union undermine vital British interests, and transfer more power to Brussels. Moreover, the euro bloc is prone to constant crisis. A suboptimal currency area will not be subject to a rule-based regime. Promises made to governments, including Britain’s, will be continuously broken.

The unfolding Greek drama underlines this point. In July 2015 EU leaders decided to use an EU-wide rescue scheme, the European Financial Stabilisation Mechanism, to grant a bridge loan to Greece, despite a previous promise to the British government that this would not be used for euro bail-outs.

Given this, how can anyone expect the British public to believe in the EU? The euro’s continuous mismanagement creates an image of the European project as a failure. This is not an argument for staying in the EU.

Yet Britain still benefits greatly from the EU in many aspects. The best scenario for Britain, and indeed the EU itself, would be if Britain stays in the EU and champions the case for a controlled euro break-up. In its hour of crises, Europe needs British leadership to navigate the storm.

Hans-Olaf Henkel is a former Chief Executive of IBM Europe, a former head of the German Federation of Industries, and a Member of the OMFIF Advisory Board. He is a Member of the European Parliament and Vice-Chair of the European Conservatives and Reformists Group. He is Vice-Chair of New Direction, a European conservative think-tank based in Brussels.

23 Mar 2016

Globalisation and the UK

Focus on the US and international community

Marsha Vande Berg in San Francisco

US President Barack Obama, when he comes to London in April, will support British Prime Minister David Cameron's bid to keep the UK in the European Union. This is welcome, but arguably of little help. The president's remarks may pit Uncle Sam against a leading proponent of Brexit, Boris Johnson, the colourful and popular mayor of London.

This could further skew the debate, by displaying harmful sentimentality about the 'good old days' of the allegedly special relationship between the UK and its long-lost former colony.

Within hours of a public comment by Senator Bob Corker, chairman of the US senate foreign relations committee, that Obama will probably use his UK visit to speak out against Brexit, London's mayor was on the hustings.

A probable challenger for Conservative party leadership should Cameron fall on the Brexit sword, Johnson said support from the White House would be nothing short of hypocrisy.

Obama's position – regarded as paralleling that taken in 2014 by the White House against Scottish independence – ties Britain's membership of the EU to its transatlantic and global influence. Such a position coming from Uncle Sam, Johnson is quoted as saying, is 'wholly fallacious' and a 'piece of outrageous and exorbitant hypocrisy'.

America's relationship with Britain seems destined to become a major focus for one of Brexit's leading campaigners. This will further blur the lines for an electorate caught between, on the one hand, political demagoguery and, on the other, the compelling logic of building further the trade and business ties between the UK, Europe and the global community.

It is well known that 50% of Britain's exports go to the EU, the world's largest trading bloc. London's globally-leading financial services are intricately intertwined with Europe's and the world's financial centres. Noteworthy is a recent comment favouring UK EU membership by Douglas Flint, the HSBC chairman. Were Brexit to succeed, he said, HSBC could readily shift operations from London to Paris.

On the political front, Brexit could trigger another push for independence by the Scots, not to mention additional unrest in Ireland. If the UK leaves, there would be precious little left in terms of political energy to tackle the matters that really count in the UK – a volatile economy, social inequality, education and the workforce, immigration and terrorism.

These are the big issues on which the western world's leaders and electorates should be focusing. The true realities of this century require the UK to remain fully connected with the US and a globalised world. And this is best accomplished if Britain stays in the EU.

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24 Mar 2016

Staying in the EU, with passion

How to fight shortening Brexit odds

Denis MacShane in London

In the 'remain' camp of Britons wishing to stay in the European Union, there is a singular lack of passion, enthusiasm, high horizons, or a sense of Britain leading in Europe. But all this is badly needed if the UK is to remain inside, as I hope it will.

After the Brussels atrocities, Conservative party infighting over the budget, and fears about massive new immigrant arrivals, the bookmakers are shortening the odds on Brexit. British pro-Europeans can hope for the best, but should prepare for the worst.

The UK's political-media establishment has told the British people for 20 years that Europe is the antithesis of democracy: 'bossy and bureaucratic', to use Prime Minister David Cameron's language.

Now Europe suffers terrorist attacks killing dozens in Belgium and Paris, even as Cameron says the EU is essential for our security. The great waves of immigrants from the geopolitical disasters of Iraq, Libya and Syria, and the open visas proposed by German Chancellor Angela Merkel and Brussels for 80m Turks, support British anti-immigrant prejudice.

To combat this, we see little political leadership. Officially, all the main party chiefs are anti-Brexit. But can Cameron rely on the hard-left Labour party leadership, the moribund Liberal-Democrats, the wilting Green party and the separatist Scottish Nationalist party to deliver him victory? As the Conservative party civil war develops, the prime minister's authority is evaporating. By 23 June not many will be listening to him.

One area where politicians need to speak out is in clarifying the EU's essential purpose. When Britain joined the European Economic Community in 1973, and confirmed the choice in the 1975 referendum, eurosceptics claim, wrongly, that voters thought they were joining a common market, a free trade zone that was just about expanding commerce, not about politics or supranational integration. Such statements need refuting.

In the 1975 referendum campaign, Margaret Thatcher, the future prime minister, famously lit a candle to commemorate peace in Europe. 'Better to lose some sovereignty than to lose your son and daughters' read one 1975 poster.

A 16-page government brochure posted to every household listed as the EEC's aims to bring together the peoples of Europe; to raise living standards and improve working conditions; to promote growth and world trade; to help the poorer regions of Europe and the rest of world; and to help maintain peace and freedom.

Other than the third reason about growth and world trade, the other four are all overtly political ambitions. Yet UK politics today plays down all these high-flying goals. The debate is reduced to one of trade, investment and jobs, where the estimates of likely repercussions vary enormously.

We do know that, if Brexit happens, considerable chaos and confusion will ensue. A new prime minister – almost certainly Boris Johnson – would feel obliged to impose some anti-EU demands, including 'regaining control of frontiers' and 'making the House of Commons supreme over EU laws and directives'.

If a post-Brexit UK started imposing limits or quotas on EU citizens, or repudiated EU directives, swift and damaging reciprocal action would almost certainly follow. At a minimum, the open easy-flow frontiers between France and England, Northern Ireland and the Republic of Ireland, and Spain and Gibraltar would be transformed. So would be the status of every EU citizen in Britain and every Briton in Europe. We would be back to an era of work and residence permits.

So far, most of the debate has been about dry economic statistics. The EU is much more than that. It is high time the pro-EU campaigners in Britain made that clear.

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29 Mar 2016

Europe safer with Britain at its heart

Brexit would deprive EU of UK's diplomatic advocacy

John Davie in London

If Britain remains in the European Union, the likelihood of major crises or conflicts on the continent is greatly reduced. In a perilous world, Britain is safer in the EU, and Europe is safer with Britain at the heart of the continent's diplomatic and foreign policy.

The British are masters of understatement rather than effusive language. As a person connected with the world of business, rather than a journalist or a politician, I rather like this low-key way of approaching matters. This influences my position on Britain and the EU.

I look at the issue from an unashamedly Anglo-Saxon perspective. The UK government supports staying in a reformed EU under the 'special status' Prime Minister David Cameron says he secured for the UK. While my Anglo-Saxon heart tugs at saying 'leave', my common-sense head tells me we will be better off staying and playing a part, with other countries, in further reforming the EU.

I am in favour of looking at all these issues based, as far as possible, on facts rather than emotions. I was in Glasgow the week before the September 2014 Scottish referendum for a family occasion, nothing to do with that referendum. I was appalled by the aggression of the Yes campaign. I hope, on the EU, we have a more civilised discussion.

The rhetoric from politicians indicates they are all trying to hoodwink us, and the media is sensationalising things. I have heard very few facts. You need a quantifiable measure if you want to use measurements. Neither side spells out the metrics they are deploying. For example, claims that 75% of our legislation comes from Brussels remain unconfirmed. Does it? Reliable figures to support that are missing. Even if it were true, is that so bad?

Let's dwell on another concern: sovereignty.

I have visited a large number of sovereign nations this year, all failed or failing. Supreme political authority alone has not helped them. We all know the EU has much about it that is not admired, but it has kept Europe from repeating past excesses. The conditions that led to constant wars, including religious, social and economic rivalries, have been largely eliminated.

The excesses of both right and left have been tempered. The 'unelected' European Commission has, over the decades, contributed to inhibiting the growth of ideologues. Europe's crises often become Britain's crises: two major European wars last century testify to that. We have not had a repeat since the EU was formed. That is due to much more than simply Nato.

Britain is a member of many international organisations, all of which impose binding rules upon us. There are numerous international bodies created by treaties adjudicating on legal issues where they have jurisdiction. We need some of them. These are undoubtedly a diminution of sovereignty. But I don't see any major problem here.

The Brexit debate has been inflamed by the volatile and fluctuating state of European politics, reflected in gains for anti-European parties in elections in several countries over the past year. However, much wider issues are at stake.

For Europe as a whole, Britain provides a stabilising political and diplomatic influence to counterbalance the differing weights of France and Germany. UK departure would deprive the EU of Britain's diplomatic advocacy and counsel. Britain's own national security, and that of Europe as a whole, would suffer as a result.

John Davie is Chairman of Altra Capital.

1 Apr 2016

A time of existential threats

Rescuing Europe from horsemen of the apocalypse

Richard Shirreff in London

In the face of increasingly challenging and potentially existential threats to its defence and security, Europe depends on the two international institutions which have underpinned its security, stability and prosperity for over half a century – Nato and the EU.

On Nato's eastern borders, a revanchist Russia under President Vladimir Putin, increasingly emboldened by his successful use of force in Crimea, Ukraine and Syria, threatens the independence of the Baltic states with their significant Russian-speaking minorities. Meanwhile, throughout Europe's periphery, from the civil war in Syria to Libya, itself increasingly a failing state on the southern shore of the Mediterranean and deep into the Maghreb, at least three of the four horsemen of the apocalypse are on the march.

These are multifaceted, hybrid threats, and they require hybrid responses. Take the threat posed by Russia. As we saw in Crimea and Ukraine, the Russian way of war is to undermine the state's integrity from within through the use of special forces, cyber operations, manipulation of minorities backed up by psychological operations and propaganda. While conventional and indeed nuclear force plays a role as the ultimate guarantor of victory, it is the highly sophisticated, carefully planned asymmetric Russian maskirovka (deception) which presents, at least initially, the most complex challenge for the West.

Similarly, the security threat posed by Islamic jihadists, the migration crisis and the increasing instability around Europe's periphery is multifaceted. Containing and preventing the threat from erupting on the streets of western capitals, as in Paris and Brussels, requires border security, intelligence and surveillance of the highest order. Ultimately though, it will require international and regional cooperation to stabilise the sources of instability – through comprehensive capacity-building for security forces and in law and order, governance, administration, anti-corruption initiatives, health and education.

Nato is the ultimate guarantor of defence for Europe and North America – hence the importance of strong, capable and credible defence forces to deter aggression. But Nato, while politically led, is at heart a military alliance, and the challenges Europe faces require more than military force. The EU has a key part to play in contributing to defence and security by its ability to apply soft power.

For example, the EU has a key role to play in supporting the Baltic states by reinforcing to their Russian-speaking minorities the advantages of remaining EU citizens, rather than becoming subjects of Tsar Putin. As for building security against the threats from Europe's periphery, this depends on a strong and effective EU.

The EU has cast a stability, and therefore a security, blanket across previously hopelessly insecure regions. In the western Balkans, an important reason for better behaviour has been the EU's strong line that Serbia and Kosovo cannot start down the road towards EU membership without the comprehensive normalisation agreement the EU's Cathy Ashton brokered so effectively.

None of this would be possible without the UK remaining an EU member. However infuriatingly bureaucratic, complex and indecisive the EU is now, it would be immeasurably worse and even less able to deal with the threats it faces without British pragmatism and common sense within the council chambers of Brussels.

The EU needs Britain as a member to initiate necessary reforms to ensure it can meet the defence and security threats of the future, let alone the present. This is a two-way relationship. A strong, effective EU, in partnership with Nato, is essential to British defence and security. If Britain leaves the EU, it will be less well defended and less secure.

Sir Richard Shirreff is a Partner at Strategia Worldwide and was formerly Nato's Deputy Supreme Allied Commander, Europe.

6 Apr 2016

Brexit could derail US recovery

UK role in America's anti-globalisation rhetoric

Desmond Lachman in Washington

A vote for British departure from the European Union on 23 June could derail the US economic recovery and further ratchet up anti-globalisation rhetoric in the run-up to November's presidential election.

Washington policy-making circles appear complacent about the outcome, but this is unjustified. The referendum is taking place at a highly inauspicious time for both the UK and the global economy. As Mark Carney, the governor of the Bank of England, has reminded us, the UK is running one of its largest external current account deficits in the post-war period, making it uncomfortably dependent for financing on the 'kindness of strangers'. At the same time, Britain is riven by strong separatist tendencies, especially in Scotland, where the electorate on the whole wishes to remain in Europe.

The global economy is poorly placed to withstand a blow from 'Brexit'. China's economy is slowing, while emerging market economies are suffering from low international commodity prices and a reversal in international capital flows. Both Europe and Japan are struggling to counter deflation. The Bank of Japan and the European Central Bank are attempting to weaken their currencies to boost export growth.

Having committed the UK to a referendum, David Cameron, the British prime minister, is correctly warning that a vote to leave would be a leap in the dark – not least because of the heightened investor uncertainty that would inevitably accompany the expected two-year period in which the UK renegotiates its relations with Europe. Having been spurned, the EU would be highly unlikely to grant the UK favourable terms in those negotiations.

In the event of a British departure, the UK should brace itself for a full-blown sterling crisis which would seriously cloud the country's economic prospects and offset any possible long-term benefits from leaving the Union. In a climate of heightened uncertainty, investors would balk at financing Britain's gaping external current account deficit, especially at a time when important parts of the City of London could be relocating to European capitals following the loss of their 'financial passport'. More serious still, the UK should brace itself for calls for another Scottish independence referendum which could presage the UK's dissolution.

The last thing the global economy needs is the collapse of one of the world's major currencies, which could trigger an outright currency war and rising trade barriers. This is especially dangerous in the context of a heated US presidential election campaign in which rhetoric against trade and globalisation has already been shrill. Emerging market economies similarly do not need an event that heightens global risk aversion and exacerbates their capital outflow problems.

Any attempt by US policy-makers to influence the UK's EU referendum is likely to prove counterproductive. Seemingly all they can usefully do is pray that the UK electorate has the good sense to vote against taking an inordinate risk with Britain's economic future.

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11 Apr 2016

Polish euro threat if Brits say No

European unity and the spirit of David Bowie

A special correspondent in Warsaw

Poles have ambivalent feelings towards the UK. And the same goes for views about a possible British European Union exit after the 23 June referendum.

British eurosceptics need to consider that, if the UK leaves, then the group of other member countries like Poland that wish (for good reasons) to stay outside the euro may be reduced to a meaningless rump. The government of the conservative Law and Justice party – whatever its current hostility on the issue – might come under irresistible pressure to join monetary union, even though that would be in neither Poland's nor the EU's interest.

To safeguard Poland from such an ill-fated choice, British critics of monetary union might be advised to temper their antagonism and ensure that Britain continues to fight for reforms from within rather than outside the EU.

The Poles are grateful to the UK for letting so many Polish citizens come to Britain to find a better place to live since EU accession in 2004. There are other areas of fellow feeling. We Poles have much affection for the late David Bowie and his brief experience in the Polish capital that led to composition of the bleak and unforgettable *Warszawa* in the 1970s.

On the other hand, many Poles have been offended by populist remarks by David Cameron, the British prime minister, about foreigners allegedly abusing British social benefits. And some in Warsaw doubt Britain's ability to support Poland's geopolitical interests if European turmoil broke out again, for example in relations with Russia.

Historical experience is not encouraging. Although Britain went to war against Germany over Poland in 1939, many still remember the UK's indifference to the Poles during the so-called phoney war between September 1939 and April 1940. For the occupied Poles, this was anything but phoney.

The Warsaw government wants to be more assertive towards Brussels. The UK's European policies suit its vision. Many in Warsaw have the impression that the Polish government would like to replace Berlin with London as Poland's strategic ally in Europe. This may be a risky strategy. Some adversaries of the Warsaw government point out that flirting with Berlin ended with two Poles getting top jobs in Europe – Donald Tusk as president of the European council and earlier Jerzy Buzek as president of the European parliament – while liaisons with Cameron have brought nothing.

The strength and durability of the relationship with London will depend on the June vote. Fostering links with an EU member renowned for its scepticism is one thing; strengthening ties with an EU secessionist is another.

Warsaw would have no option but to put distance between itself and London if a UK exit paves the way for closer European integration. A continental hard-core of member states would see British departure as a golden opportunity to press on with 'ever closer union'. The dilemma for Poland would be excruciating. But, at a time of tension with Russia over Ukraine and other issues, the Poles would find it very hard not to go with the European mainstream.

The EU is not flawless. But these deficiencies should not make us overlook its advantages. There was a loud sigh of relief in Britain when Scotland opted to remain in the UK in September 2014. This sigh will be echoed across Europe if the British stay in after June.

In a globalised world, unity matters. Europe needs Britain to remain flexible, versatile and strong. David Bowie was not the only Brit to find salvation at the very heart of the old continent. The Brits can rebel, as Bowie would have done, against excessive federalism. But we should not forget that, these days, you can travel from one Berlin district to another without getting shot by border guards. The EU deserves some credit for that.

The author works for an official institution in Warsaw.

13 Apr 2016

Brexiteers peddling false hopes

After UK departure, EU states would seek trade diversion

Peter Wilding in London

Britain's trade with the rest of the world plays a vital role in the referendum debate. 'Brexiteers' dispense the balm of blind hope to dismiss the 'jobs at risk' argument of those who want Britain to stay in.

John Redwood, the Conservative MP campaigning for the UK to depart, promises that leaving the European Union wouldn't endanger Britain's trade because the EU 'sells us much more than we sell them'. Boris Johnson, the mayor of London, has suggested the UK could easily negotiate a free trade agreement with the EU along the lines of the 'Canadian model'.

On the other side, Lord (Stuart) Rose, leader of the Britain Stronger in Europe campaign, repeats the mantra that 3m British jobs are linked to UK-EU trade and that a post-Brexit re-entry into the single market is fantasy.

Amid so many different arguments, it is difficult to tell who is right. And there's little point relying on economic forecasts. According to a report by the think tank Open Europe, UK GDP could be 2.2% lower or 1.6% higher by 2030 if the UK exited, depending on a range of unpredictable variables.

In truth no one has the full answer. But there are three certainties that all those pondering a post-Brexit world should bear in mind.

First, on the trade numbers. Eurosceptics are fond of pointing out that Britain has a big trade deficit with the EU. Other member countries' exports to the UK were £291bn in 2014, against British exports to the EU of £229bn. So, the argument goes, the remaining EU states would lose more than the UK if Brexit led to tariff barriers or other forms of protectionism. This argument fails to consider that exports to the EU represent 12% of UK GDP, while the EU's exports to the UK account for just 3% of EU GDP. Although neither side would win from a trade war, the UK would be hit proportionately much harder.

Second, on post-Brexit access to the single market. Those in favour of leaving say that, if the UK did not get a trade deal with the EU on the right terms, an adequate fall-back route would be available through the World Trade Organisation. But this is far from a satisfactory solution. The WTO concentrates on trade in goods (where the Germans are powerful) and works far less well for services (where the UK excels). With the EU focusing on breaking down the last barriers to intra-EU services trade, leaving the single market is odd. WTO and other possible trade arrangements after Brexit would not give equal access, would not complete the single market in services and would be equally flawed.

Third, Brexiteers – keen to enter the post-Brexit world of relying on trade (not politics) for UK global influence – believe Britain's erstwhile partners would readily make concessions in negotiations, as Ruth Lea argued in her piece for OMFIF's EU referendum series, 'Britain's Brexit boon', on 19 April. However, this is highly unlikely. This argument ignores the reality that some EU countries would be eager to divert trade from the UK. They could seek to undermine the City of London, and lure financial market activities that at present take place in the UK towards EU financial centres like Frankfurt or Paris.

Moreover, other EU states would do their best to divert to their own territories foreign direct investment currently destined for the UK. These states' governments would argue, with some justification, that such investments would lose their rationale once the UK no longer had full tariff-free access to the EU market.

These three points about trade are real-life arguments that have nothing to do with statistical ping-pong and everything to do with British jobs, British livelihoods and British prosperity. On trade, as in other matters, the Brexiteers peddle false hopes. They do this at their own, and the British people's, peril.

Peter Wilding is the founder and Chair of British Influence, an independent pro-EU pressure group.

20 Apr 2016

Why Europe needs Britain

The UK deserves its special treatment

Marcello Minenna and Edoardo Reviglio in Rome

The debate over UK membership of the European Union is psychologically complex. Some observers claim that EU support from the City and endorsement from President Barack Obama – who arrived in London yesterday and meets Queen Elizabeth today – may turn into a boomerang. The message backing British adhesion from former US treasury secretaries could have a similar effect.

By contrast, ‘leave’ campaigners brandish short-lived but very effective slogans, digging deeply into the national psyche and combining diverse views and ideologies, from nationalists to ultra-liberals.

Britain has been discussing leaving the EU for over 40 years: the first referendum was in 1975. At the time, the protection of domestic industry against continental deregulation was a significant issue for those wishing to depart. Today, the roles are reversed. Neo-liberals support ‘Brexit’ and they are stronger than back then.

Yet the facts are clear. The UK immensely enriches the Union. The British bring about a useful equilibrium, offsetting corporatist tendencies embedded in Germany and Italy. They provide a contribution based on pragmatism and empiricism, counterbalancing France’s sometimes excessive rationalism.

In the rest of Europe, Brexit would further impede the (already deadlocked) integration process, with the risk of a dangerous domino effect.

Europe without the UK would simply not be the Europe we need. Especially now, when dangerous and uncontrolled forces are shaking world politics and with the global economy again under pressure.

We hope Brexit will not happen, yet we cannot be sure. After the 22 March terrorist attacks in Brussels, there was no panic in financial markets. Major economic uncertainties were already embedded in the price of assets.

However, assets held to be negatively affected by a British exit fell in price. Many observers saw the Brussels authorities’ inability to prevent an atrocity in the EU’s heartland as supporting the ‘leave’ campaign.

Sterling has been on a bearish path for more than four months, down 10% against the euro, 15% against the yen and 7% against the dollar. The currency’s volatility has increased over various maturities by 3-5%. Some economists believe that, if Brexit occurs, the pound would fall to parity against the euro.

The financial market reaction reflects poll findings that about half of British citizens appear to back EU exit.

This is, in some ways, difficult to explain. At first glance, Brexit would not give the UK many advantages. Britain is not part of a messy and complicated euro area. It has a flexible exchange rate and an independent monetary policy. It is outside the Schengen agreement, so it can exert tougher border controls than other European countries.

In addition, the British would leave the EU, but not the European single market, to which the UK should remain largely compliant.

On the other hand, in view of the large UK current account deficit (5% of GDP), a post-Brexit sterling devaluation could prove beneficial to boosting British exports.

The effects on the financial landscape are difficult to assess. Some believe that speculative attacks against sterling would reduce foreign investment and lower the City’s role as a world financial centre. Others say London’s financial clout could actually increase, citing important integration already under way with other major stock markets (notably Frankfurt and Milan).

Beyond these arguments, Europe irrefutably needs the Brits. We Europeans outside the UK have to do our best to convince them to stay in. The UK deserves its special treatment within the EU. We should all be ready to grant this and ensure that it endures.

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22 Apr 2016

Longing for an irretrievable past

Watch out for political consequences of UK exit

Thilo Sarrazin in Berlin

The question of a possible UK exit from the European Union is similar to that of marriage and divorce. When you are in love, it's easy to find good reasons to go down the aisle. Similarly, when you're estranged, you will find lots of grounds to go separate ways. The decision itself is driven by emotions. Weighing up rational arguments brings you only so far.

Among the arguments against 'Brexit', the economic ones are in my view overrated. The success of an economy or country depends above all on its integration into the world economy, the quality and application of the legal framework, and the education and industry of its population. The relative decline of the British economy from the second world war to the 1970s was due to internal factors, as was its relative revival in the 1980s and 1990s. EU adherence or non-adherence to the EU, in future, will not be the most important influence on the UK's economic success.

On the other hand, the political consequences and emotional risks of Brexit are often underrated. Since 1066, England (later the UK) has always played an active role on the Continent. It took care of the balance of power there and played a major role in many of the great European wars.

For better or worse, the EU now comprises the bulk of the European continent. Meetings of the European council in Brussels have taken the place of former wars.

By leaving the EU, the UK would join the other two powers on the margins of Europe, Russia and Turkey. British influence on EU decisions, be they right or wrong, would dwindle. Would that be a happy choice? Would the quality of decision-making in Brussels, which is often abominable, get any better if British common sense was no longer present?

The EU's present course is more than troubling. The euro may fail, the economic decline of the Romanic countries may continue. The Schengen regime may prove a dangerous dream. But what alternative have we got but to muddle through, to identify and correct our mistakes? Germany, with its troubled past and without natural borders, has no choice but close union with its neighbours, above all Poland and France.

The UK's political weight applied towards Europe has often resulted in better European decision-making. And these decisions on the Continent will remain important, sometimes vital, for Britain. This has not changed since 1066 and it never will.

Brexit might make sense if one were convinced that the EU was doomed to fail anyway and would break apart sometime in the foreseeable future. But even the most ardent Brexiteer can't wish that. The narrow strip of water dividing the UK from the mainland would not protect the UK from the fallout from that event. So maybe it is better to stay and stick it out.

Brexit might be a rational option, too, if one hopes for better UK legislation and more consistent and flexible British decision-making outside the EU. The separation of Singapore from Malaysia was certainly good for Singapore. But where is the British Lee Kuan Yew? And, taken all in all, the twists and turns of British politics over the last 70 years have not been that rational. Home rule means that you are mostly hit by mistakes of your own making. It does not necessarily mean there are fewer mistakes.

So much for the rational arguments. But, as in love, marriage and divorce, they probably will not prove the decisive factor. In the privacy of the polling booth, reason will compete with passion. And the romantic longing for an irretrievable past may get the better of the British voter.

Thilo Sarrazin is a former Member of the Executive Board of Deutsche Bundesbank.

26 Apr 2016

Back to hopelessness

Germany's post-Brexit isolation

Jan von Haefthen in Hamburg

UK membership of the European Union is clearly, for many British people, a highly emotive issue. We have seen this during the last few days in the invective displayed against visiting US President Barack Obama by some of those who wish to quit the EU.

Speaking personally, I may say that the vituperative anti-Obama criticism employed by Boris Johnson, the mayor of London, a leading proponent of UK departure, would appear to disqualify him from the office of prime minister to which he evidently aspires.

As a German, perhaps I may be excused if I, too, voice a degree of emotion on this question. A 14-year-old in 1945 in ruined Hamburg at the end of the second world war, I lived through Germany's total physical and spiritual collapse. The worst part was the complete dismembering of all hope. With my own eyes I witnessed how many of my fellow human beings took their own lives, driven by sheer desolation and despair.

After plumbing these depths, the young people of that time, my generation, pinned their faith on a better European future. We aspired to build a continent that would be united, so we believed, in peace and co-operation. We were following some of the basic wishes of the conspirators behind the assassination attempt on Adolf Hitler on 20 July 1944, including my father, whom the Nazis hanged three weeks after the failed plot. Ever since the 1957 Treaty of Rome we supported 'the European project', bringing together again the continent's once-warring nations.

The British, so I learned during my years at Gordonstoun boarding school in Scotland under headmaster Kurt Hahn, saw things differently. This was the lesson they drew from history. Britain's most dangerous foes had always been the great disruptive European powers: Spain, France under Napoleon and, in the last century, Germany.

Despite these differences of experience and perspective, Britain was always, in the new Europe of the post-war decades, a highly important partner for the Germans.

And now we appear to have reached another turning point. With every ratcheting-up of the economic and monetary difficulties of the so-called 'peripheral' states of Europe, and as France grows increasingly unreliable and rudderless, agreement between Germany and Britain becomes progressively more crucial and more central.

I fear that, if the British decide to leave on 23 June, this will be, for the Germans, an enormous disappointment.

Bereft of British support (even from outside the single currency), Germany could be hemmed in by a coalition of forces within the euro area – France, Italy and Spain – embarked upon economic and monetary policies inimical to German interests.

That could change the face of German politics, in a way that can hardly be foreseen, let alone controlled.

With Britain gone from the EU, and with the US seemingly drifting towards a new isolationism, the Germans would, once again, feel left alone. I do not wish it to happen but I'm afraid it might: the return of hopelessness, a period of darkness across the heart of Europe.

Jan von Haefthen is a former Supervisory Board Chairman of Franz Haniel & Cie.

27 Apr 2016

Safety in staying in

UK deserves better than fantasy future

Graham Bishop in London

I shall be voting to stay in the European Union on 23 June. With the leaders of the exit camp having revealed their reckless policies on our vital foreign trade, it is the only way to safeguard Britain's economic future.

There are three strands to the arguments for and against the UK's EU membership – Project Future, Project Fantasy and Project Fear.

Project Future is about building on what we know today. The UK has great influence in a bloc which accounts for one third of the world's imports. A wide-ranging analysis of the 'balance of competences' between the UK and the EU ahead of Prime Minister David Cameron's February EU renegotiation concluded that the UK did not need to demand the repatriation of powers from the rest of Europe – the balance was already about right.

Russian adventurism in Ukraine and Syria has reminded us of Nato's founding purpose. And the euro area is still adjusting to the reverberations of the 2008-09 financial crisis – potentially presenting a huge opportunity to the City of London to consolidate its position as the world's leading financial centre.

The people of Britain deserve better from those who argue for historic and irreversible change but fail to provide a substantial, precise plan for creating a good outcome. This is Project Fantasy. Boris Johnson, the mayor of London, argued for a trade deal modelled on that agreed between the EU and Canada but changed his mind within a couple of weeks. The Canada deal does not cover services, took seven years to negotiate even after years of preliminary work, and has yet to be ratified unanimously by all EU states.

Under the mantle of what opponents have dubbed Project Fear, Peter Mandelson, Britain's EU trade commissioner between 2004 and 2008, has branded as 'fantasy politics' the concept of a quick and simple renegotiation of trade deals around the world. In a similar vein, EU Commissioner Jonathan Hill told the Bruges European business conference in March that, 'If the UK were to vote to leave, it's fantasy to suggest it could quickly secure access to the single market on the same terms as it has today'.

One obvious example is the risk to the City of London. Unless the UK slavishly follows any new EU rules on financial markets, the City's earnings will be progressively eroded. The recent UK budget forecast the government's deficit next year at £72bn – even with City tax contributions of well over £60bn.

According to the UK office for national statistics, Britain's current account deficit rose to a peacetime record of 5.2% of GDP last year – £96bn, even after the City's trade surplus of £72bn. This is proportionately the biggest deficit among all industrialised countries and more than four times that of any other EU state except Cyprus. No wonder Mark Carney, governor of the Bank of England, has warned of relying on the 'kindness of strangers' to fund this deficit.

Project Future is moving to deal with the legacy of the 2008-09 financial crisis and create a more competitive European economy that can thrive in the years ahead. If Project Fantasy turns out to be well named, UK citizens have every right to be fearful of the possible consequences.

Graham Bishop is Chairman, Consultancy on EU Integration at GrahamBishop.com.

2 May 2016

Pain of losing a brother at arms

UK can play France's role at Europe's heart

Vladimír Dlouhý in Prague

The European Union has become a fragile colossus, tormented by a combination of bureaucracy, failed social engineering, the premature introduction of a common currency, an excessive welfare system and naïve multiculturalism.

Despair over how to cope with migration flows has confirmed Europe is almost always behind the curve, failing to provide solutions on the issues that matter. No wonder Britain is voting on EU membership. No wonder nationalist and right-wing politicians enjoy increasing support.

This is the dark side of European integration. But there are achievements too, albeit hackneyed, forgotten or taken for granted: peace in Europe, the post-second world war economic miracle, the EU's internal market and the Schengen agreement.

These achievements are more fresh in the memory in central and eastern Europe. Access to the EU internal market after the fall of the Berlin Wall fostered economic growth, as did the gradual liberalisation of labour markets. This was true before the global financial crisis. It is true now, and will be in the near future when growth in central and eastern Europe resumes.

During those years, many of us in central and eastern Europe considered Britain a brother in arms. This might be surprising at first glance. From all possible aspects, central and eastern Europe – historically, socially, politically, and from a business point of view – should lean towards the German (or continental) model. But this was never entirely true, and it is here where British membership of the EU matters.

Central and eastern European countries were always less inclined towards excessive intervention, red tape and a welfare state mentality. There is already too much regulation, but average tax rates, both personal income and corporate, are still lower than in most of western Europe. Labour markets are more flexible and business conditions are relatively benign, despite strong vested interests and persistent corruption in some countries.

As to future growth, productivity and competitiveness, Europe must not stifle business in the straitjacket of high taxation, hidden subsidies and protectionism. Politicians, business and the general public are aware of the importance for our wellbeing of the internal market, including free flow of capital and labour.

For all this, the rest of Europe needs Britain in the EU. We need a large, strong partner country, with a leadership determined to preserve the accomplishments of post-war integration – and at the same time able to stand up against this European foolishness that has brought us to the point of true disintegration. To stand up against politicians who swear on Europe but who are driven by the short-term logic of the political cycle, too cowardly to accept past mistakes and provide a real strategy. To stand up against new messiahs, who are noisy and skilful critics but unable to provide solutions.

Post-war European peace and stability was based on Franco-German co-operation and balance of power. Given French weakness and German strength, this ceases to be true. Britain, despite the Channel and its previous splendid isolation, should be ready to take on this French role, at least to some extent.

Is Britain ready to play this part? Can Europe, be it at the level of member states or in pan-European institutions, admit the time has come for rethinking the entire integration process? Can such reforms be successful? Or shall we let the genie of chaos out of the bottle, leading to disintegration?

These are difficult questions. Now we have probably the last chance to find out the answers.

Vladimír Dlouhý is President of the Czech Chamber of Commerce and was a Member of Czechoslovak and Czech governments after 1989.

10 May 2016

Where Europe has weight

EU membership and UK interests

Janek Lasocki in London

It's easy to dismiss European foreign policy as ineffective or irrelevant. Yet the EU, with its ability to pool all member states' expertise, resources and diplomatic weight, has often provided a better means of achieving Britain's foreign policy goals than the UK could accomplish by itself.

The UK has played an active role in implementing and shaping EU foreign policy priorities. While far from flawless, joint EU action has had a real impact on some of the most important global questions, including those directly affecting UK interests.

Three examples show how this has worked.

Six years ago, Somali piracy was out of control. Pirates were seizing ships and hostages in the busy shipping channels by the Gulf of Aden; 174 attacks were recorded in 2010. Although an international problem with an estimated global annual cost of \$8-12bn, the UK shouldered much of the financial burden. The actions were threatening British ships as well as goods transported to the UK. The effect on the UK maritime sector (including the insurance, banking and legal sectors), accounting for almost 2% of GDP, was even more significant.

The EU tackled the symptoms and the root causes of the problem in a way no one country could. A European naval force (under the command of a British admiral) took up patrols off the coasts of Yemen and Somalia. The EU set up a civilian training mission to build the capacity of the Somali coastguard. The EU funded an African Union peacekeeping mission, and invested heavily in coastal communities and national infrastructure. These remedies worked. In 2015, the number of Somalia-based attacks fell to precisely zero.

Case No. 2 concerned Ukraine. Just days after the demonstrations that culminated in the ousting of Viktor Yanukovich, the country's president, and Russia's annexation of Crimea in 2014, David Cameron, the British prime minister, declared the UK would 'stand up for the people of Ukraine'. This meant working through the European council to introduce EU-wide sanctions on 147 Russian individuals and 37 Russian entities, as well as Russia's energy and defence sectors. It entailed strong European support for the new Ukrainian government's reform programme, offering visa liberalisation, financial aid and expertise, conditional on progress on anti-corruption efforts and major structural reform. Only by working together was the EU able to offer sufficiently strong incentives to anchor Ukrainian reform and credible sanctions against Moscow.

Third, Iran's development of a nuclear programme from 2003 became an increasing cause for concern for the UK. After Iran refused to comply with UN security council resolutions, the EU in 2012 agreed the strongest ever sanctions against any country, targeting the finance, transport and energy sectors, and including a total ban on oil imports. This was key to bringing Iran to the negotiating table and the eventual deal to reduce substantially the country's enriched uranium stockpiles and limit its installation of centrifuges. As a permanent member of the security council, Britain was represented at the negotiations, but Cathy Ashton, the EU's high representative for foreign affairs, became Iran's main interlocutor. Common European sanctions were used as incentives.

Should Britain leave the EU, its ability to shape world events would be diminished, including in defending British interests. EU member states would continue working together. The UK could take part on an ad hoc basis, but would forfeit the right directly to influence EU foreign policy-making.

It's hard to see how this would benefit the UK – unless a diminished foreign policy is its goal.

Janek Lasocki is a foreign policy specialist who was formerly Advocacy Coordinator at the European Council on Foreign Relations in London.

12 May 2016

Neck and neck race

On-and-off odds on Brexit

William Keegan in London

Confusion about betting odds regarding the outcome of the 23 June referendum bedevils much media reporting. From Today, the BBC's flagship radio news programme, to the Financial Times, commentators and reporters seem not to know the difference between 'odds on' and 'odds against'.

My favourite howler during the past week or so concerns a senior BBC presenter who blandly stated that at one time the odds on Leicester City – the Midlands-based football team viewed at the start of the 2015-16 season as likely contenders for relegation – winning the premiership were 5,000 to one.

We all know Leicester's surprise win has generated almost as much attention around the world as the EU referendum itself. But, taken at face value, the statement that the odds about Leicester City were once 5,000 to one on means that you would have had to place £5,000 to win £1. The odds were, of course, 5,000 to one against Leicester causing such a surprise – what is known in the trade as 'a turn-up for the books'.

Which brings us to the odds about the referendum result. In the past two months these have consistently indicated an easy win for Remain. They have moved about a bit. But as I write the odds quoted by bookmakers William Hill are as follows: Remain is hot favourite at 10 to three on, and Leave is 12 to five against. For example, £10 put on a victory for Remain would win you only £3, though you would recover your original stake.

Conversely, £5 placed on Brexit would win you £12, and your original stake would be returned. (Full disclosure: as a strong Remain supporter, I put a small bet of £20 on Brexit when I was offered three to one. This was entirely as an insurance policy for a consolation binge if, from my point of view, the worst happens.)

The odds against Brexit have narrowed a little since I placed my bet. Graham Sharpe, press spokesman for William Hill, says that while most individual bets have been for Brexit, the weight of the money has been for Remain.

But there is a marked disparity between the outcome indicated by the betting odds and the much closer vote heralded by the opinion polls. Horse-racing buffs would say the two sides are neck and neck. The result of the last British general election may have discredited these surveys, but they are the only polls we have.

I have been surprised by the number of people I meet who either intend to vote for Brexit or say they haven't made up their minds. My impression is that, although until recently government sources in private expressed quiet confidence about the outcome, there are some signs of panic in the ranks.

Last week's remarks by Mark Carney, governor of the Bank of England, about a possible 'technical recession' if the UK votes for Brexit are perhaps one indication of such panic.

William Keegan is Senior Economics Commentator at The Observer and a Member of the OMFIF Advisory Board.

16 May 2016

Brexit scare helps the debtors

Greece and other EU trouble spots

Vicky Pryce in London

In a nervous environment where Europe wants Britain to vote to stay in on 23 June, Greece holds important cards in its poker game with creditors over managing and rescheduling its debts. The spectre of Brexit is worrying the EU and the Commission enough to ensure that Brussels is taking a more conciliatory approach on the fiscal front across several debtor member states, not just Greece.

The Greeks are anxious to ensure a return to stability as quickly as possible. An agreement with creditors would unleash funds that Greece needs, pave the way for an end to capital controls and help the Greeks gain from entering the European Central Bank's quantitative easing programme.

Benefiting from leverage generated by everyone's desire to keep another major Greek squall out of the headlines, Athens has a good chance of winning the right deal, even at the expense of prolonging negotiations beyond the next Eurogroup meeting on 24 May. A primary Greek preoccupation is to allow release of early money so it can in July repay bonds acquired by the ECB – while at the same time paving the way for sustained debt relief.

Greece, still struggling to demonstrate it can implement restructuring to lower deficits and debt on a sustainable basis, is not the only economic and political trouble spot.

Spain, which is subject to excessive deficit procedures, is holding elections on 26 June, three days after the UK plebiscite. Mariano Rajoy, the prime minister, who is quoted as saying that Britain leaving would be 'a dramatic rupture', is emphasising the need for more growth-orientated policies if he forms a new coalition government.

Portugal, also under review, is coping with stagnant growth. The Brexit threat has delayed a decision on Commission deficit procedure sanctions against both these countries.

France, facing difficulties pushing through labour reform, has been given time extensions for meeting deficit reduction targets. Italy has been allowed to ease its fiscal stance by an extra 0.8% of GDP through lower taxes, just as it is suffering from GDP forecast downgrades.

The euro area may face further downward growth revisions if instability emerges after a UK vote to leave.

The Greek government is in the process of passing more bills through parliament, including painful further tax increases. It is due to pass a fiscal corrections mechanism for automatic further measures should current reforms fail to deliver the forecast fiscal improvement. And Greece can claim success at last in finally having a debt relief deal openly discussed.

The International Monetary Fund, which has made debt relief a condition for funding any part of the latest bail-out package, is reportedly suggesting rolling over Greek bonds' maturities until 2080, allowing a grace period to 2040 and fixing long-term rates. The European Stability Mechanism may buy back part of Greece's high-interest debt from the IMF and replace it with lower-interest debt from the ESM.

Getting the right long-term solution is a high stakes enterprise. Greece wants the UK to stay in the EU to counter Germany's influence. Yet Athens sees no reason why it cannot exploit for its own purposes the general scare about a British exit.

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22 May 2016

Trade and the Brexit fallacy

Leavers playing Russian roulette

Sanford Henry in London

Brexiteers speak with the conviction of life-long obsession. If the UK leaves the European Union, they are making cast-iron guarantees to the British people and the country's trading partners. They laud the prospect of an avalanche of worldwide free trade deals.

With these fast-growing economies, so the argument goes, the UK will be free to forge its own commercial accords and loosen its dependence on dreary, sclerotic Europe – a Europe that absorbs close to half of all British exports.

Peddlers of this utopian dream need a reality check. Where is the queue of countries lining up to ink deals with London by the summer holidays? Leavers talk of China and India. But China's president, during a visit to Britain last year, pointedly expressed his wish for the UK to remain in the EU. Big business in India is dead against withdrawal.

Will the US ride to the rescue of Britain's soloists? Unlikely. The next US president – Republican or Democrat – will struggle against anti-free trade sentiment. Supporters of British departure have failed to answer the wider question of why America would want to strike a bilateral trade deal with the UK in the first place.

The clue can be found in the mid-1990s, when Conservative eurosceptics pressured John Major, then prime minister, to seek British membership of the North American free trade area. He was told plainly this would be possible only under an EU-Nafta deal. Britain alone was not sufficient inducement for President Bill Clinton. This would not be any different today, or under the next president.

The conundrum for eurosceptics touches on a truism about global trade. It is increasingly negotiated and conducted by blocs, not by individual states. These layers of trade integration provide for more opportunities, stability and legal certainty – Britain's exact advantages from the single market today. It is this 'minilateralism' – a phrase coined by Chris Brummer, professor of law at Georgetown university – that represents the future of the international trade landscape.

The EU is not a popular organisation. It should do much less. What it does do, it should do much better.

But at its core is a single market that represents a triumph of economic integration, based on the rule of law, supporting hundreds of thousands – if not millions – of livelihoods in the UK.

If the Brexit faction could come up with solid, irrefutable evidence that this trading hub will be replaced by a brave new world trading with economies elsewhere, we should listen.

Otherwise, they are playing Russian roulette with their country's future. And probably the EU's too.

Sanford Henry is a Partner of Global Resources Partnership and the author of Only Trade Works: A History of Transatlantic Trade, which will be published later this year.

25 May 2016

Europe's confederal future

Keeping EU together and Britain on board

Pierre Haas in Paris

The impact of a British departure from the European Union would spread well beyond the British Isles. The 23 June referendum recognises the dangerous separation of the populations of Europe from their political leaders. To overcome this gulf, and ensure the EU's survival, member states should formally abandon the impossible goal of a federal Europe and propose instead a confederation of resilient nation states.

Hubert Védrine, a former French foreign minister under President François Mitterrand, brought the issue into the open by declaring last month, 'Stop saying more Europe every day!' Instead, Europe must promulgate a new concept of European co-operation built around nationhood.

As a former officer in the Free French Forces of General Charles de Gaulle, owing an unrequited debt to Britain for standing alone in 1940, I fervently wish the UK to stay part of Europe.

That goal would be buttressed by other European leaders' formal admission that the federalists' objective of a single European state is a non-starter. That would acknowledge the arguments of the populist supporters of a British exit. And it would meet the needs of 70% of eurosceptics who favour the EU's survival in a modified, reformed version.

Rallying President François Hollande to this concept would be in his own political interest, representing a beacon of hope for his prospects ahead of presidential elections next spring.

At the heart of Britain's problems with Europe is that its citizens demonstrate genetic insularity from the EU's objectives and management methods, despite the adjustments secured in Brussels. Current European policies, maintaining the validity of the old vision of federalism even though it has become unrealisable, validate the reasoning of Brexit supporters and strengthen the likelihood they will prevail. The autonomy of the British Isles served the greatness of the British Empire very well for centuries – so why change it?

Both Brexit advocates and those who stick short-sightedly to past visions refuse to see the realities of a world that is perpetually changing as a result of technological progress and geopolitical turbulence. The need to adapt is an imperative no nation can escape.

In its own interests, Europe can do much to meet British requirements. The other countries need to implement the principle of subsidiarity to devolve political actions as far as possible to national governments and parliaments. The French government must reconsider the necessity of the European parliament's wasteful monthly transfers to and from Strasbourg.

France's refusal to undertake structural reforms to stimulate growth and reduce unemployment weakens French credibility in the minds of Germans, who themselves see their economy crippled by the money-creation policy of the European Central Bank.

Brexit would leave Germany isolated. The German tandem with France, which led to the EU's birth and has sustained it ever since, would lose all consistency. A change in the EU's configuration would lead to fragmentation and inevitable disintegration. Poland, Hungary, Slovakia, Austria are already setting themselves apart through migration curbs. Denmark no longer seems attached to Europe's methods of working. More Franco-German divergence would only encourage other countries to reconsider their own membership.

EU members' longer-term priority must be to make Europe, after the US, the second global political and economic hub of a tripolar world, with China as the third. That would fit in with political realities, as the Transpacific project for American-Asian partnership is still in limbo, held back by Chinese opposition.

The UK, after losing its imperial dimension, provides diplomatic expertise that makes its European presence an imperative necessity as a mediator between conflicting forces. To preserve Europe's internal cohesion and strategic future, Britain must remain on board.

Pierre Haas, born in 1920, was Chief Executive of Continental Grain France in 1950-65, then Executive Director of Banque Paribas, International Department and Chairman of Paribas International from 1965-1982. He has served on numerous boards including Schneider, Newmont Gold in Denver, Power Corporation of Canada and Power Financial Corporation, Canada. This is an abridged, edited version of an article, 'Brexit: un ébranlement mondial', first published on 1 May on the Atlantico French news website.

27 May 2016

Emotion versus economics

Danish experience and an anti-EU vote

Joergen Oerstroem Moeller in Singapore

As a dedicated European, I fear the Leave campaign will prevail on 23 June. This prognosis of the British referendum outcome is based on experience of four Danish votes on European issues – in June 1992, May 1993, September 2000 and December 2015 – two of which took place when I was state secretary in the Danish foreign ministry.

We can't rely too much on opinion polls. According to an old saying, politicians shouldn't call referendums unless, from the beginning, they can be sure of the outcome. Yet three of the Danish referendums led to a No vote, despite a big Yes majority when they were announced.

There is no compelling economic case for 'Brexit'. Economic facts point unequivocally to Britain losing from leaving. The size of the loss is open for dispute; the direction is not. By contrast, the economic arguments for departure are vague and half-formed. Some Brexiteers say the UK would be less constrained by red tape. Yet Britain already is one of the least regulated economies. There is not the slightest evidence why a departing UK would have more or better opportunities for non-European Union trade.

Yet – precisely because so much of the argument turns on economic questions – I conclude that the answer might be No to the EU. Many voters agree neither that the referendum should be fought on economic issues, nor with Prime Minister David Cameron's dire analysis of the consequences of EU rejection.

Forecasts from the UK Treasury are played down as high-level conjecture, hotly contested by other experts. Danish referendum experience tells us, alas, that anti-establishment dissenters refuting official theses command great media attention, leaving the electorate baffled and reaping great gains for the anti-government cause.

In a media maelstrom people fall back on whom they trust. Voters all over the world are losing confidence in mainstream politicians, giving their support to so-called plain speakers who (however improbably) appear to care for ordinary citizens, like the UK's Boris Johnson and America's Donald Trump.

Such no-longer-fringe politicians address issues such as migration. They ply the electorate with talk of the 'good old days' – in Britain's case, the empire and the special relationship with the US. In fact, almost all Commonwealth countries, along with President Barack Obama, have made clear they would prefer Britain to stay in. But that cuts no ice with the voters.

The populists' trade is in lines such as, 'There will be mistakes made in the future, but let them be our own mistakes.' That counts for much more than statistics about growth and costs of living.

It hardly helps the Remain camp that, in the past, Cameron has been less than clear about his commitment to Europe. Not so long ago he was seen as a eurosceptic.

When the prime minister tabled his list of proposed reforms, this implicitly did not exclude recommending departure if the result was unsatisfactory. Cameron has frequently stated that Britain could survive outside the EU without dire hardship. All this resonates badly with his present tone sketching cataclysm outside the EU. Short though the electorate's memory may be, voters remember enough of what Cameron said before to hold him to at least some of the findings.

The 23 June vote is politically and psychologically complex. It is not a general election where party loyalty plays a role and simple questions decide the outcome. A cocktail of sympathies, emotions and sentiments are at work, reflecting attitudes towards politicians, neighbouring countries and the world.

Reflecting this broad interplay of forces, pro-EU campaigners are deluded if they think they can win the referendum solely on economic arguments. They will have to engage on the emotional questions too. Otherwise, on 24 June, Britain may find itself out in the cold.

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31 May 2016

Brexit: an avoidable trainwreck

Getting the world back on course

DeLisle Worrell in Bridgetown, Barbados

British departure from the European Union would be a chaotic, divisive and inefficient experience – a major setback for the global economy.

'Brexit' after the 23 June referendum would dismay Britain's friends and delight its detractors. It would give heart to those on the right and on the left who want to take the world back to whatever they fantasise as their golden era. It would aggravate the problems of global governance with which the world has struggled since the turn of the century.

I understand the Leavers' frustrations. The European Commission has a reputation, not entirely undeserved, for insensitivity and inconsistency. One example pertains to my own country. Last year a European Commissioner published a list of international financial centres that, it was claimed, were not co-operating fully with international guidance on tax information exchange.

Barbados was placed on this list, in spite of our solid track record of maintaining international regulatory standards. That is a vital pillar of our competitiveness, a fact that has been certified by the International Monetary Fund, the World Bank, the Financial Action Task Force on anti-money laundering, and other internationally recognised bodies.

There are other areas of overlap with Caribbean problems. Our region is familiar with the social problems and misperceptions stemming from high immigration, which leads to new arrivals not being assimilated into the resident culture, but instead setting up their own alien communities. An unexpected upsurge in immigration, motivated by international income and employment disparities, has turned the Caribbean's previously welcoming sentiment into one of hostility and resentment.

Problems such as international regulatory reform and the management of international migratory flows pose complex challenges, best addressed by research to deepen understanding of the nature of the problem. This takes time, and may be overtaken by events, so authorities must improvise. This is where they can go wrong.

Instead of a sensitive approach which seeks out common ground, the relevant authority (the European Commission in the case of IFCs, and the Caricom secretariat in the Caribbean case) insist that all parties obey the letter of the law. In fact, you cannot promote good behaviour through legislation alone; you must motivate it by providing appropriate incentives. In the case of EU directives on everything from the definition of a vintage car to competition rules, the impression is of arbitrary decision-making, with little sensitivity to the impact on individuals and companies.

The heart of the challenge, whether in the EU or in the Caribbean, is this: in the interconnected world of the 21st century, we should dispense with 20th century notions of sovereignty. The world is driven by forces of telecommunications and access to technology in ways that will continue to surprise us. The results are seen in behaviours and activities that can be influenced, but not controlled, by sovereigns.

International migration and flows of international finance are prime symptoms of these changed fundamental circumstances, necessitating improved global governance and redefined objectives of global co-operation.

After the end of the cold war and the lifting – almost – of the threat of nuclear extinction of civilisation, today's international leaders have perhaps the best opportunity in history to build a peaceful, prosperous and co-operative world.

Our leaders should focus on realising this rare opportunity, to the benefit of all. Brexit would be a great setback for this objective, a thoroughly avoidable trainwreck. At this seminal moment, we do not need a disruptive event that would distract skills and energies better directed to understanding and countering the global currents driving our world off course.

DeLisle Worrell is Governor of the Central Bank of Barbados.

5 Jun 2016

Britain's 21st century opportunity

Europe will welcome re-engaged UK

Conor McCoole in Singapore

Voters in the 23 June referendum will be presented with two truly depressing alternatives. The first is 'Brexit', which no friend or ally of Britain wants to see as it will bring significant economic and political uncertainties in its wake. The second is 'Remain' – with the clear understanding that Britain will simply motor along in the slow lane of Europe, at least until the next exit opportunity arises.

Billions of people around the world are watching this referendum closely. There is a real sense that the outcome will have global economic and strategic consequences that go far beyond Britain and Brussels. It concerns all of us, not least Ireland, which has a very close relationship with the UK.

This is one of those issues where the study of history is most useful. Arguably, the European Union is the greatest multinational political project of all time, certainly of our time. Growing out of the ashes of the second world war, the EU helped keep the peace, promote prosperity and give hope to fellow Europeans trapped behind the Iron Curtain for 50 years.

It is true, as the Brexit campaign asserts, that EU membership involves pooling some sovereignty. However, in return, the EU and its citizens have been richly rewarded with 70 years of peace and prosperity. How to put a value on this?

The last decade has not been good for Europe and we may easily fall into the trap of undervaluing the EU. It is no surprise to see this happening in the Brexit debate. Like a train running on loose tracks, the EU has wobbled precariously during the euro area sovereign debt crisis, and again during the migration crisis.

The Schengen agreement is in turmoil, unemployment is persistently high and voters across the continent are flirting with eurosceptic parties and extremism. Against this backdrop, public enthusiasm for the EU, and confidence in its leaders and institutions, has declined across Europe, not just in the UK.

The EU in 2016 is a complex tapestry of nation states, regions, economies, language groups and religions. It is infinitely more complex than the six-member European Economic Community founded in 1957. Leading the EU is probably the greatest political and diplomatic challenge in the world today. The Franco-German locomotive that has pulled the Union steadily for seven decades needs to be strengthened.

There is a huge opportunity for Britain to shape and lead the EU in the 21st century. Using its considerable soft power and diplomatic skills, Britain can play an influential role clarifying priorities and rebuilding public support for the European project across the continent.

Specifically, Britain could focus on defence, stabilising weak states on the periphery and creating a common energy policy. Working for the common good in Europe will strengthen Britain's influence. British success in key fields will make the whole continent safer and stronger.

Sadly, an exit now, or indeed at any time, will do the opposite.

Conor McCoole is President of the Irish Chamber of Commerce in Singapore.

7 Jun 2016

Conflict ahead, even if Britain stays in Partner that has never felt at ease with Europe

Niels Thygesen in Copenhagen

If I were a citizen of the UK, I would not hesitate to vote Remain in the 23 June referendum. As an economist I cannot doubt that 'Brexit' would lead to a sizeable short- to medium-term loss. This would be magnified if the UK – for politically logical reasons – refused the least costly option of retaining access to the single market.

The main arguments for Brexit are political, stemming from a perception of lost sovereignty within a club where the UK has never felt at ease. Leave advocates have difficulties deciding whether their perception is due mainly to further European Union political ambitions (though currently dormant) which they do not share, or to (justifiable) frustrations over the way the EU tries, and often fails, to develop joint policies.

As to the former, the UK has already opted out of political union, confirmed and extended in Britain's February deal. As to the latter, domestic opinion underestimates UK bureaucrats' skill in defending national interests, as well as EU reforms started well before 2016 scaling back excessive regulations. Other member states often show similar critical perceptions; the UK is unique in finding enough support for them to gamble with the idea of leaving the EU altogether.

Brexit would pose economic challenges and political risks, notably of contagion elsewhere in Europe of anti-integrationist views. Negotiating exit terms would be a time-consuming distraction. No wonder a clear majority of EU public opinion hopes to avoid Brexit. However, the assumption that all is well if a majority of UK voters decides to stay is unwarranted.

Consider the less dramatic scenario after a narrow Remain victory – the most likely outcome. An unhappy large UK minority, probably a majority in the governing Conservative party, would demand to be better accommodated, becoming still more stridently critical of the EU. In seeking to 'exercise leadership' in working for a less cohesive post-referendum EU, Britain would have potential allies on some topics, notably with regard to the more nationalistic overtones on migration from some central European governments. Yet the UK would find it hard to leverage much support on monetary and economic matters among the heterogeneous group of countries yet to join the euro.

In sustaining demand and employment since 2008, the UK economy has performed better than continental Europe. This is mainly due to a weaker sterling and postponement of action to adjust Britain's current account and public finance imbalances. These choices attract applause in the UK; elsewhere in Europe, sterling's weakening is regarded as free-riding on the UK's trading partners. The rest of Europe would show fresh disquiet if the currency falls further after the vote as Britain tries to cut its massive current account deficit.

Over four decades, senior Labour and Conservative policy-makers have made central contributions to EU integration in key areas: Roy Jenkins on economic policy, Arthur Cockfield on the single market, Leon Brittan on competition and trade policy, Chris Patten on foreign and security policy, Peter Mandelson on trade policy. In the 20 years to 2010, governments of both parties often stated they wanted to be at the heart of Europe – though they did little to sustain that image. But in the past six years the UK debate has moved from a critical to an outright hostile tone.

Brexit would be a worse outcome, but not by as wide a margin as many of us in the rest of the EU would like. A Yes to the EU is likely to reinforce a legacy that the UK's partners cannot view with equanimity. Today's main source of EU divergence may well stem from the entry in 1973 of a UK that never accepted deeper EU integration and rejected any consequential political moves to enact it.

Even if Britain votes to stay, there is still much room for conflict.

Niels Thygesen is Professor Emeritus of Economics at the University of Copenhagen and a Member of the OMFIF Advisory Board.

8 Jun 2016

Fact and fiction

Combating EU myth-peddlers

Simon Tilford in London

Euro-sceptics put forward a stream of mainly fictional ideas about the economic costs of European Union membership. The myth-peddlers cling to them doggedly, however many times they are refuted by academic research. These dubious notions provide a form of comfort blanket: the simple act of quitting the EU would inject oxygen into a suffocating British economy and resolve many complex social and economic problems.

MYTH: The costs of EU regulation have become so onerous they outweigh the relatively modest benefits of Britain's membership of the single market.

FACT: The Organisation for Economic Co-operation and Development indices of regulation show Britain's product markets are the second least regulated in the OECD. Labour markets are far more 'Anglo-Saxon' than 'continental'. Most EU regulation would need to be replaced by comparable UK regulation. No British government would scrap statutory sick or holiday pay, or tear up environmental laws.

MYTH: Removing EU regulation would raise UK growth.

FACT: Some EU regulation could be improved, such as the working time directive. But by far the most serious supply-side constraints on UK economic growth – an acute housing shortage, congested infrastructure and skills shortcomings – are home-grown.

MYTH: European protectionism saps Britain's trade and investment ties with the rest of the world.

FACT: The UK has a trade surplus with non-EU markets and a large deficit with the EU. But suggesting Britain should lower trade ties with the EU is the wrong conclusion. Britain's European trade has certainly been hit by weak euro area domestic demand. But this will be a problem whether or not the UK is in the EU.

MYTH: Britain is a frustrated globaliser inside the EU.

FACT: Opinion polls suggest that ordinary Britons are not much more supportive of free trade than their EU counterparts. There is no evidence that EU membership lowers Britain's trade with the rest of the world. EU membership has not held back German exports to China; this is likely to be true of the UK, too.

MYTH: Inward investment is not linked to EU membership.

FACT: Britain is home to more foreign investment than any other EU country, reflecting the UK's liberal product and labour markets, the integrity of its legal system, attractive commercial clusters like the City of London, and the English language. In addition, for many foreign investors, especially in manufacturing and financial services, Britain's access to the single market is a major pull factor.

MYTH: EU immigration is costly.

FACT: Immigration into the UK from the EU jumped in 2004 following the accession of central and eastern European countries and has remained relatively high since. The share of Britain's population from other EU countries is roughly the same as in Germany and France, lower than the Netherlands or Spain. EU immigration is on balance positive for the economy. Britain's EU migrants are young and more likely to be in work than Britons; they pay more in taxes than they receive in benefits and public services. There is little evidence they take jobs from Britons or significantly reduce low-skilled workers' wages.

MYTH: Brexit would improve Britain's public finances.

FACT: Between 2014 and 2020 Britain's annual net contribution to the EU budget will be around 0.5% of GDP – £9bn a year. If the UK were to join the European Economic Area and pay into the EU budget on the same basis as Norway, its budget contribution would not fall by much. If the UK negotiated an agreement outside the EEA similar to Switzerland's, Britain's contribution would fall by around half. Under both scenarios the UK economy would suffer and tax revenues would fall. If Britain quit the EU's orbit entirely, it would save the full 0.5% of GDP. Yet only a modest post-exit weakening of trade and investment would lower Britain's fiscal position by a similar amount.

Simon Tilford is Deputy Director of the Centre for European Reform.

10 Jun 2016

Safeguarding Britain's interests

Successful EU operations owe much to UK influence

Michael Jay in London

Much of the debate surrounding Britain's membership of the European Union has focused on economic arguments. This ignores the EU's positive impact on the development of Europe itself, and on the rest of the world.

In her famous Bruges speech in 1988, Margaret Thatcher said the UK would 'always look on Warsaw, Prague and Budapest as great European cities'. Many saw her comments as inflammatory. They were in fact visionary, offering Warsaw pact members a democratic, liberal market alternative to Moscow's undemocratic centralism. This beacon of hope from the European Community, together with Nato's military strength, helped bring about the Soviet Union's subsequent collapse.

Since then, Nato has evolved, as has the EU's approach to foreign, security and defence policy – in both cases heavily influenced by British advocacy. Nato hard power and EU soft power are now, as then, a powerful combination, not alternatives.

Here are two examples of the EU's influence. First, Britain, France and Germany – working with the US and Russia, and chaired by the EU special representative – in 2015 reached an agreement with Iran over its nuclear weapons programme following many years of negotiations. To do so, Britain used its influence with the US and its European partners – a role both the US and EU member states value.

Second, Operation Atalanta, the first EU naval operation, headquartered just outside London and operating alongside Nato, since 2008 has significantly reduced piracy off the coast of Somalia and in the Indian Ocean more widely, protecting UN humanitarian shipments to Somalia.

These two very different but very successful EU operations have been greatly in Britain's interests, and owe much to UK influence.

And if we were to leave the EU? There is a vivid example of what life would be like. In February 2015, Chancellor Angela Merkel visited Washington for talks with President Barack Obama. This was followed by a visit by Merkel and French President François Hollande to the Belarus capital Minsk for negotiations with President Vladimir Putin on Ukraine. Later that year Merkel, Hollande and Putin met in Paris to discuss not only Ukraine but Syria. Where was Britain? Absent.

Do we really want to cede influence in this way to the US, Germany and France over issues of such deep concern to us? Or do we want to continue to exert our influence over Europe's own future and its role in the world, as we have under prime ministers from Thatcher to David Cameron?

The US wants us to continue to use that influence. So does every member of the EU, along with our major Commonwealth partners. It is surely in Britain's interests to do so.

Lord (Michael) Jay is a former UK Ambassador to France and Permanent Undersecretary at the Foreign and Commonwealth Office.

12 Jun 2016

Power of collective action

Why I changed my mind on Britain and EU

Andrew Large in London

Three years ago, I was fed up with the European Union. Brussels policies were frustrating in their own right, seemingly taking us inexorably towards an ever closer union. The British people did not want that. Nor did I. People who set out to negotiate with Brussels were at their wits' end. Brussels suffered from a democratic deficit and the EU was the source of unconstrained migration.

So, in 2013, I signed the launch letter for Business for Britain, hoping to campaign for real EU change. I did not expect this transformation to be quick. But I wanted all the issues on the table. So I was unhappy when, following the UK renegotiation earlier this year, Business for Britain changed into Vote Leave.

The fundamental changes we demanded were never going to occur before a referendum. Embracing an impossible deadline turned Business for Britain from a project to secure change from within into a campaign to get Britain out of Europe. And so I am supporting the Remain campaign.

Historic moments of this sort come rarely. Our heritage is belittled if, instead of trying to improve an imperfect EU, we take a decision that undermines it. To abandon the cause of constructive change from within seems irresponsible when the EU faces threats from fundamentalism, migration, Russian aggrandisement and climate change.

The economic arguments point conclusively toward Remain. The British negotiating position on trade would be weaker after departure. With our ability to gold-plate EU rules, replacing European rules with UK-made regulations is hardly likely to lighten the burden on business. Besides, free movement of labour will be a precondition for any half-satisfactory trade deal with the EU. Nor will leaving materially improve the net fiscal cost of British membership.

I ask myself: What will we feel after 23 June – whatever the result? Where will be the inspiration? Brexiteers say it will re-energise us. But we are already free to grasp opportunities to 'go beyond Europe' – for example, to Asia. And the supposed benefits from regaining full sovereignty would soon prove meaningless in today's interdependent world. Punishing ourselves economically, with wholesale renegotiation of our relationships after a hostile divorce, seems an odd way to generate a new dynamism.

And will our national pride really respond positively to the damage we will have inflicted on Europe, or the pleasure we will be giving to Marine Le Pen, the leader of France's far-right National Front, and Vladimir Putin? How will we feel if the Scots decide to leave the UK and the Irish peace process is compromised by a hardened, migrant-proof border? What if we encourage nationalistic parties elsewhere in Europe to follow our lead towards fragmentation? Surely two world wars have taught us to fear that?

In contrast, what will it feel like if we remain? Less immediately exciting, perhaps. But at least we would still have today's undoubted benefits. And inspiring too because we would have bought ourselves a chance to help lead the EU to a more coherent future. Britain's new exemption from the obligation of working towards an ever closer union has freed us to play a leading role here.

If we stay in, Britain will have the legitimacy to lead Europe's thinking on a properly two-dimensional EU. Britain should seek deeper continental recognition of the needs of non-euro states. The UK should lead the reform agenda with the aim of completing the common market which we originally thought we had joined. In return, Britain should support the necessary deeper integration of the euro area.

In today's world we can advance only through collective action. Despite its imperfections, the EU has been a force for virtuous collaboration. We should embrace the opportunity to make it better.

Andrew Large is a former Deputy Governor of the Bank of England and Member of the Monetary Policy Committee.

16 Jun 2016

Remain no longer a racing certainty

Odds against Brexit narrowing

William Keegan in London

As the 23 June referendum approaches and the nation seems (in my opinion insanely) heading for a plunge into the 'Brexit unknown', I fear my Remain colleagues can no longer derive much comfort from the disparity between the predictions of the opinion polls and the bookmakers.

I confess that, as a racing man, I have always been surprised by the degree to which Remainers have tended to say 'the bookies know best'.

Certainly, the bookies know quite a lot. But in the end the state of their 'book' is conditioned less by their often highly experienced opinion than by the sheer flow of money.

Not so long ago the odds on Remain were as good as seven to one on. That meant that there was so much money going on a Remain vote that one had to put down – the euphemism would be 'invest' – £7 to win £1; or, to take another example, £70 to win £10. In other words, Remain was considered such a 'racing certainty' that many people thought it was worth risking losing a lot of money to win comparatively little.

However, the odds from William Hill as I write have weakened to the point where the odds on Remain are now eight to 15. That is to say, if you put £15 on Remain, you will win £8 if the UK votes to stay on 23 June. From this narrowing of the odds alone, you can deduce that, while still favourite, Remain is no longer the very hot favourite it once was.

Conversely, the odds against a Brexit vote have narrowed from three to one to six to four – that is, a £4 bet will win £6 in the event of a Remain vote, whereas some time ago the same bet would have won you £12.

The explanation for this turn of events is, I think, quite simple. A few months ago, and indeed until relatively recently, the Remain camp was quite confident and attracted a huge amount of bets. More recently, as the polls have narrowed and even indicated a Brexit, the money has been going on a Leave vote, to the point where just over 72% of individual bets are for Brexit.

We Remainers can no longer cite the bookies as indicating we should not be so worried about the very close – and in some cases pro-Brexit – outcome that the polls are indicating.

William Keegan is Senior Economics Commentator at The Observer and a member of the OMFIF Advisory Board.

17 Jun 2016

Let's stay connected

UK and Netherlands face common challenges

Ruud Lubbers in Rotterdam

The British and Dutch have a lot in common. The UK and the Netherlands both had to struggle after the second world war with the challenge of how to be truly European while remaining authentically British or Dutch.

There are plenty of tasks ahead, which is why I hope the UK stays in the European Union after the 23 June referendum. The poll comes at a peculiarly delicate time, coinciding with the threat from Isis, the rise of Donald Trump in the US, political turbulence in Germany, and the challenge the business world faces in formulating a response to the need for lower-carbon economies.

Britain and the Netherlands have to steer the right path regarding Nato and the 'special relationship' with the US. We need joint policies to back the campaign from the United Nations and others on sustainable development. We must implement the Paris climate accord, in which the US and China took the lead.

Around the time of German unification in 1990 and the Maastricht treaty of 1991-92, I believe I can claim that I was Margaret Thatcher's closest European friend and ally. The same was true for John Major, her successor as prime minister.

As a European neighbour, I had to explain to Thatcher the concept of 'subsidiarity'. With Major, I had to agree an opt-out over the common currency, though he still declared himself committed to 'ever-closer union'.

A quarter of a century later, just as it was then, interdependence not independence must be the watchword for governments and policy-makers. A new chapter in history has to be given shape and substance.

Young people are a source of hope. They refuse to give in to growing nationalism and materialism, and aspire to a future marked by the 'joyful celebration of life'. The international political and business community is aware of the need to eradicate poverty and address climate change.

The British and Dutch have too much in common to end their precious European relationship. I hope it continues and is even enhanced after 23 June.

Ruud Lubbers is a former Prime Minister of the Netherlands.

20 Jun 2016

Spirit of common responsibility

Brexiters' splendid isolation

Harald Benink and Paul van Seters in Tilburg

This idea of European countries' common responsibility – highlighted by our King Willem-Alexander in a speech to the European Parliament on 25 May – is a cornerstone of the European Union. All the EU's building blocks – a common market, freedom of movement, a common agricultural policy, a not entirely common monetary union – rely on a spirit of common responsibility. In the arguments of British people who wish to leave the EU, this is one notion that is glaringly absent.

The case for 'Brexit' frequently boils down to irresponsibility, for example regarding the migrant crisis and the potential repercussions for a Europe already facing the forces of disintegration.

As the King said, Europe's position in the world has changed drastically since 1989. Europe is no longer the centre of the world, economically, geopolitically or culturally. The values Europeans consider universal are no longer self-evident everywhere, and are even highly contested in many places.

These new circumstances make it all the more urgent for EU countries to join forces and engage in concerted action. Whenever the EU is challenged, one can hear the call for more effective co-operation. To control the masses of refugees. To fight against people-trafficking, terrorism, and criminality. To combat climate change. To improve and secure energy resources. To stimulate economic growth and new jobs for the more than 22m Europeans out of work.

The position of those calling for Brexit is the very opposite. They prefer self-centeredness, if not selfishness. They seem to believe the answers to these challenges can be found in splendid isolation. They are reluctant to accept Britain's clear interest in playing an important role in dealing with the many challenges Europe faces in the 21st century. But there is still hope that reason will prevail.

Harald Benink is Professor of Banking and Finance and Fellow of the Centre for Economic Research at Tilburg University. Paul van Seters is Professor of Globalisation and Sustainable Development at TIAS Business School, Tilburg University.

20 Jun 2016

Italy wakes up to threat of Brexit

Idea of Europe ingrained in body politic

Antonio Armellini in Rome

Italy is belatedly waking up to the notion that 'Brexit' could be for real. (I however continue to place my faith in the bookmakers and hope that sanity will prevail tomorrow). Until a few weeks ago, Italians showed a mixture of bewilderment and disbelief at what appeared to be another scarcely comprehensible example of British eccentricity. But the preoccupation has gained ground that the UK might actually leave the European Union, causing many problems for Italy.

The idea of Europe is ingrained in the Italian body politic. Unlike the British, we do not strive to define our identity in isolation. Rather, for historical and psychological reasons, we seek to be part of a wider plan from which to derive recognition and authority.

Brexit not only would alter the EU's geopolitical balance, but also could lay bare its inability to build a credible alternative to the nation state. The risk of further opt-outs and referendums would be real. There is no possibility of implementing schemes, such as going back to the original six founding states as a renewed hard-core of political integration.

Euro-scepticism has been on the rise in Italy as in most other European countries. The weekend Italian mayoral elections showed again the challenge to the authority of established parties. Yet Italy still sees its future as part of a politically integrated Europe. The UK referendum, as well as other phenomena like the migrant crisis, has shown how threadbare that concept is. Italians are starting to realise they might be in for a very painful rethink.

Migration is one area that would be deeply affected if the UK left the EU. More than 300,000 Italians are officially resident in the UK. They would face some new hitches, such as obtaining a residence permit and getting through passport control and customs. No great matter; quite a few could decide to make their life easier by applying for British citizenship.

Another 300,000 or so are not officially resident. They are mostly very young, come to learn the language and decide to stay on for a bit, picking up often horribly underpaid jobs they would never dream of doing at home. The experience helps to turn them into responsible adults (with some English) with a better understanding of the ways of the world. When they go back (as they do), they spread their new knowledge around their friends in the small provincial circles they come from, giving a necessary boost to internationalisation of Italian society.

Thanks to these boys and girls, London has become one of the world's most vibrant and colourful cities. Were these young Italians (and other Europeans) to leave, it might easily drift back to the greyness of yore. But that would not be an Italian problem.

As far as pecuniary matters are concerned, the Italian business and financial system is closely connected to the City, and the Milan bourse has become part of the London stock exchange. The loss of 'passporting rights' following Brexit would make life more complicated and increase both costs and bureaucracy. A growing number of Italian companies look at the UK as a business-friendly investment destination with little red tape, and would be forced to reconsider their plans. Having to relocate to Paris or Frankfurt (very few, alas, would opt for Milan) would be an additional drawback.

In all these areas, the costs and inconveniences – for example, splitting the single market – would be much greater for the British. But Italians are starting to see that the burdens would be higher than anticipated for them as well.

Antonio Armellini was Italian Ambassador to India between 2004 and 2008. He is a member of the International Institute for Strategic Studies and Istituto Affari Internazionali, and a Member of the OMFIF Advisory Board.

22 Jun 2016

UK gains from EU multicurrency status

Chance to have best of both worlds

Oliver Letwin in London

As with any complicated public policy question, there are many different reasons why people are for remaining in the European Union or for leaving.

So why do I, as someone who battled for years against Britain joining the euro, and who has argued that we should resist being dragged into an emerging 'United States of Europe', now believe we should vote to remain?

The short answer is I believe the special status negotiated by Prime Minister David Cameron in Brussels in February gives us the chance to have the best of both worlds. We can remain within the free trade single market, which brings us jobs and prosperity, while staying permanently outside the euro area and its accompanying political and fiscal union.

This immediately begs two further questions. First, why do I believe it benefits Britain to remain within the free trade single market? To this I would say the single market gives us not only the most complete access possible to free trade within Europe, but also access to the EU's 53 global free trade deals.

And second, why do I believe we can now be members of the single market without being dragged into the euro and its fiscal and political union? The answer is that, for the first time in the EU's history, the international law decision negotiated by the prime minister explicitly states that the EU is a multicurrency area and sets up protections for countries like the UK which have decided to remain permanently outside the euro. While some countries will wish to form a fiscal and political union, other countries like the UK will not.

The decision establishes that the phrase 'ever-closer union' in the original treaty is neither a legal basis for expansive interpretations of the treaties by the European Court of Justice, nor a phrase applying to the UK.

These features of the UK's EU agreement offer what I believe most people in the UK have wanted for many years. This is to benefit from being safer, stronger and better off as members of the single market without being gradually subsumed into a European super-state.

I don't claim this is a route to heaven on earth. And I don't claim Britain leaving will be Apocalypse Now.

But faced with the high short-term uncertainties and costs to our economy from an exit, together with the opportunity to participate in the EU free trade area without having to participate in monetary, fiscal and political union, why shouldn't we take the opportunity – rather than taking a leap in the dark?

Oliver Letwin is MP for West Dorset and Chancellor of the Duchy of Lancaster.

22 Jun 2016

Oversights of the Brexit brigade

Former prime minister makes powerful case for Remain

William Keegan in London

Gordon Brown is widely credited with making a crucial last-minute intervention when it appeared as though the September 2014 Scottish referendum was going to produce a vote to leave the UK. With opinion polls pointing to a neck-and-neck finish, the former UK prime minister has been brought into the fray again – this time in an 11th-hour attempt to prevent Britain's exit from the European Union.

This follows the publication of *Britain: Leading, Not Leaving*, a wide-ranging history of our relations with the rest of the EU in which Brown makes a powerful case for Remain. If the UK votes to leave, Brown's book ought still to be widely read – if only to ram home to the electors what a foolish choice they have made.

Brown makes clear that the migration issue, which seems to be the main factor that has strengthened opposition to Remain, is far more complex than a simple exit from the EU can resolve. Indeed, by unilaterally bowing out from the opportunity to co-operate with other EU countries, Britain, via Brexit, could further exacerbate the migration challenge.

Brown is the man who kept the pound out of the euro. But, as this book illustrates, there was nothing 'anti-European' about that decision. He comes across as a passionate European. He states that, by remaining in the EU, 'Across a range of decisions that concern every family in our country Britain can argue for, and achieve, the best balance between national autonomy and international co-operation'.

He takes a neat swipe at Conservative eurosceptics who constantly cite Margaret Thatcher's supposed European hostility. As he writes, in her famous Bruges speech, 'Thatcher was at pains to demand a reappraisal of Britain's relationship with Europe, not a severance.'

Brown is especially good on the connection between globalisation and our present discontents. He acknowledges that successive governments, including his own, were slow to alleviate the impact on individuals and communities of 'losing out'. But globalisation 'is here to stay... the EU is not the cause of the insecurities people are facing but is part of the solution. In fact, the case for British co-operation in Europe is stronger than it has ever been.'

Two good examples he cites of Britain's role in EU economic policy-making during his own much criticised premiership are its influence on the euro area in the bank rescue operations of 2008-09 and its successful opposition to 'federalist' plans to harmonise taxation, including on savings. As he points out, extreme europhiles often forget that, while the US may be a currency union, it is a long way from harmonisation of state tax regimes.

One of the Brexit brigade's many oversights has been its misunderstanding of how modern 'British' businesses have supply chains stretching throughout the EU, which would be severely disrupted by Brexit. Brown provides a detailed examination of our industrial links with the rest of the EU, not least in the automotive business. As he says, the foreign multinationals that dominate the 'British' car industry invest in Britain as their platform for investment in Europe.

William Keegan is Senior Economics Commentator at The Observer and a Member of the OMFIF Advisory Board.

22 Jun 2016

European map will change again

UK's 'special status' best option available today

Reginald Dale in Washington

It is ironic so many people favour 'Brexit' just when Britain has achieved the most advantageous relationship with its European Union partners since European integration began. For the past 60 years, post-imperial Britain has repeatedly sought its proper place in Europe without finding a role in which it is truly comfortable. The 'special status' that David Cameron achieved in his much-maligned 'renegotiations' comes closer than ever to fulfilling that long-term goal.

The fundamental historical problem is as simple as it is intractable. Since the aftermath of the second world war, most continental countries have entrusted their futures to an integrationist organisation, now called the EU, of which Britain is not a natural member. This is for profound reasons of history, politics, geography, culture, law, national character and attitudes that are often insular and exceptionalist. That truth was most pithily expressed by Winston Churchill, when he said in 1930, 'We are with Europe, but not of it.'

Since the 1950s, Britain, always suspicious of continental idealism, has tried almost every possible option short of a full-hearted embrace of European political unity. The UK boycotted the early stages of European integration, and then formed a rival trade bloc. It subsequently changed its mind and joined the European Economic Community. But it resisted anything smacking of a 'federal Europe' and focused on trade, economics, and elements of foreign and security policy co-operation involving little loss of national sovereignty.

Whereas the war-ravaged continental countries hailed the EEC as a phoenix rising from the ashes, Britain saw its membership, forced by straitened economic circumstances, as a giant geopolitical comedown.

As an often recalcitrant member, Britain has been consistent in its goals. It has enthusiastically supported the single market, but equally enthusiastically worked to set the EU's bounds wider still by admitting numerous new members – largely in the hope of ending the dream of a 'United States of Europe'. In this it has had considerable success. Most importantly, Britain stayed out of two of the biggest components of closer union – the Schengen agreement and the euro. Furthermore, the UK has patched together a long list of opt-outs and exclusions in numerous other EU policy areas.

The great achievement of Cameron's renegotiations was to win full and final recognition that Britain will never be obliged to join in further moves to 'ever-closer union'. It can actually have what it has so long sought – all the economic and financial advantages of membership without any commitment to more political integration.

There is one important proviso. As Churchill would have warned, the map of Europe will not stop changing. At some point, the continental drive towards closer political union will resume – probably among a hard-core of euro area countries – further reducing British influence in the wider EU.

For now, the government is right to describe Cameron's 'special status' as the best of both worlds. That is the best option available today. But even if Cameron wins support for the vaunted new arrangements on offer, it would be rash to regard that as a final settlement. History doesn't work that way.

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22 Jun 2016

Hard lessons on counterfactual thinking

Remain vote will lower risk of adversity

Shumpei Takemori in Tokyo

Barney Frank, the former US congressman famed for his role in promoting post-2009 financial regulation as House of Representatives financial services committee chairman, once commented: 'I envy academic people. They can talk about counterfactuals. There are no counterfactuals in politics!' Thursday's referendum will test the validity of the proposition.

Counterfactual thinking explores outcomes that might have happened if actual circumstances or policies had not arisen. A typical example might be this: 'Facing a serious economic slump after the 2008-09 crisis we adopted quantitative easing. The situation did not return to normal. Yet if this policy had not been adopted, it would have been worse.'

Behind CFT stands the 'piecemeal social engineering approach' well known in social sciences. This lays down that political choices should proceed along pragmatic lines based on trial and error and learning from past mistakes, rather than on strongly defined ideological doctrines.

Past British decisions on the EU have shown an exemplary regard for this approach. However, the politics of the referendum could change all that.

The UK has wisely opted out of Europe's single currency and the Schengen border-free arrangements. A classic case of CFT in practice. As a result, the country could escape the worst of the euro and immigration crises. Britain's membership of the single market, on the other hand, has made it a preferred destination for foreign investors seeking to launch business in continental Europe. So the UK hitherto could have the best of both worlds.

For myself as a Japanese economist with a good knowledge of foreign affairs, the British people on referendum day should continue to be guided by CFT and vote for Remain. That way, they will lower the risk of adversity.

There is one big problem. CFT stands opposed to the popular antiglobalisation rhetoric espoused by many Leave campaigners. Direct democratic procedures such as referendums are not conducive to the intelligent use of CFT. Cameron committed a historic blunder by proposing the EU referendum in the first place, thereby putting the world economic order at risk.

The anti-Cameron headwinds in opinion polls are partly a result of the wider public belatedly realising this mistake. Instead of careful piecemeal consultation between parliamentarians, the general public must decide the fate of the country in a single vote, on the basis of (mis)information and prejudice.

The British public already is sensitised to some negative CFT outcomes through the 'fear' campaign of the Remain camp, postulating all kinds of unsavoury outcomes if the UK departs.

After 23 June, if the electorate votes to leave the EU, the British public will finally learn CFT the hard way: by actually living through the dire counterfactual consequences. I hope this won't be the case.

Prof. Shumpei Takemori is Professor of Economics at Keio University and a Member of the OMFIF Advisory Board.

22 Jun 2016

SECTION FOUR

OMFIF POLL OF POLLS

The OMFIF poll of polls tracked voting preference from early January until 23 June, using a rolling average of most recent data.

Swings in sentiment and market reaction

OMFIF analysis of polling data

The poll of polls on 22 June provided no conclusive evidence for the 23 June outcome. The marginal Remain lead had been lost, with the 22 June ‘pop’ showing Leave at 43.6% and Remain at 44.6%. The bloc of Undecided voters had fallen to 11.8%, a change accounted for by Remain’s rise in support. The high percentage of Undecideds underlined the deadlock and the significance of the Undecided vote in influencing the final result (see Chart 1).

Leave overtook Remain several times in the six months preceding the poll, in January, March and May (see Chart 2). On each occasion their lead lasted just a few days, with the exception of a longer period in early February. In the last two months of the referendum campaign the deadlock between Remain and Leave led to the highest number of lead changes since January.

Remain re-established its lead in the final days of campaigning. OMFIF’s poll of polls on 18 June showed an increase in undecided voters at the expense of Leave, while Remain had increased its share to 44.5%, giving it an almost two-point lead.

The economic implications of a ‘Brexit are potentially significant, particularly for investors. The performance of stock and currency markets can act as a proxy for voter opinion, as markets reacted to referendum developments throughout the campaign.

Chart 1: Swinging sentiment in relatively low range
Summary of poll data for the two preceding days, May-Jun 2016

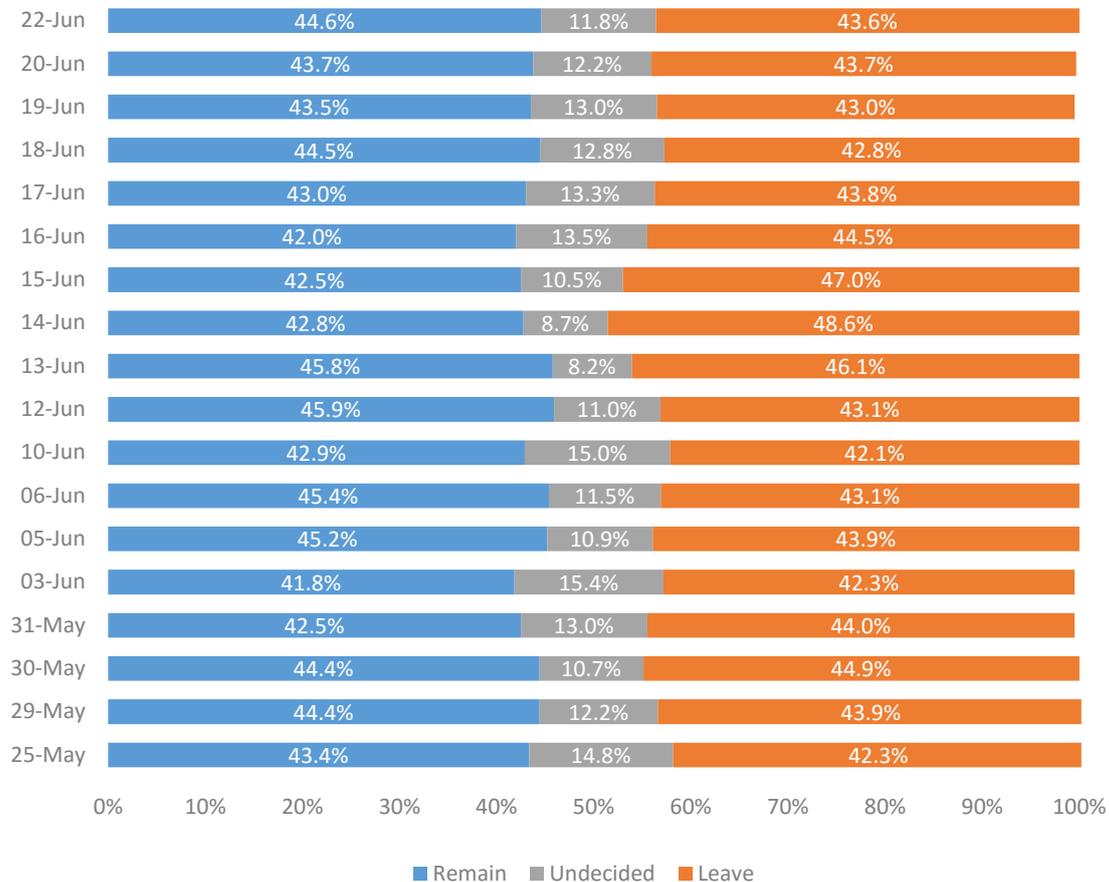
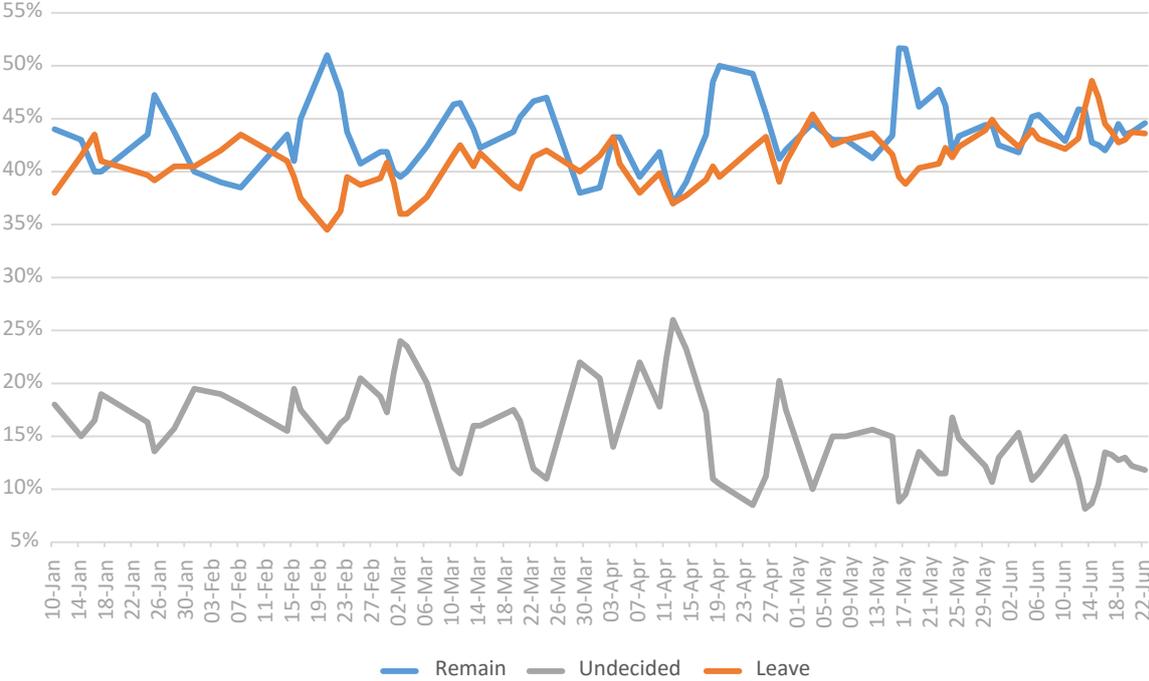


Chart 2: How 'in' and 'out' voting intentions have fluctuated
 Rolling averages of polling data, Jan-Jun 2016



The FTSE 100 index broadly tracked the strength of the Remain vote, reflecting broad investor preference for Britain remaining in the European Union. The index of leading shares closed at 6261 on 22 June above 6090, the current average, and continued to rise on polling day. Sterling rose and fell in tandem with the strength of the Remain vote, standing at \$1.47 on 22 June.

Poll data based on ICM, YouGov, ORB, Survation, Ipsos MORI, TNS, BMG Research and Opinium polls, taking averages from all polls on each recorded day, excluding polls with only a leave/remain option (some days have more than one poll, other days have only one. Not all days have polls). A two point average is calculated by taking the average of the latest two polls.

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