

Brexit: Go It Alone Or Stay With Coalition Of The Wanting

CIARAN MCEVOY 4/08/2016

President Obama is scheduled to visit the United Kingdom this month — too late to celebrate Queen Elizabeth II's 90th birthday, but just in time to urge Britons to stay in the European Union, even as it grapples with economic stagnation and a refugee crisis.

The possibility that Britain may vote on June 23 to exit the EU has increased anxiety over what could be Europe's biggest political change in decades, raising fears about the EU's survival, global finance and U.S. ties to European allies.

Nervousness over a potential "Brexit" is already being felt. The pound has fallen, U.K. construction activity has slowed, and new hiring saw its weakest advance since mid-2013. Consumer confidence in the year ahead, though positive, is at its lowest point since December 2014. And the worst may be yet to come.

"As we go closer to the actual referendum date, this uncertainty will have a negative impact on U.K. financial markets," said Jacob Funk Kirkegaard, a senior fellow at the Peterson Institute for International Economics.

European Existentialism

It has been enough to worry JPMorgan Chase (JPM) Chairman and CEO

Jamie Dimon. In his annual letter to shareholders earlier this week, he warned on a Brexit's negative consequences, including a possible trade war between the U.K. and the remaining EU states that might even threaten the EU's existence.

“The best case is that Britain can quickly renegotiate hundreds of trade and other contracts with countries around the world, including the European Union,” Dimon wrote. “Even this scenario will result in years of uncertainty, and this uncertainty will hurt the economies of both Britain and the European Union.”

Europe's largest bank, HSBC (HSBC), decided in February to keep its headquarters in London but said it could move 1,000 jobs to Paris if Britain leaves the EU.

To Brexit supporters, exiting the EU would save Britain money and restore some of the sovereignty they feel has been lost to Brussels bureaucrats. But others are concerned that a British departure would embolden populist anti-EU political parties such as the National Front in France, Law and Justice in Poland and Podemos in Spain, among others.

And after losing a Scottish independence vote in 2014, Scottish National Party leader Nicola Sturgeon has said there “almost certainly” would be another independence referendum if the Brexit happens.

“If the U.K. leaves, what you've done for the first time, you've now begun to remove one of the main factors that has held Europe together,” said **Bernard Baumohl, chief global economist at Economic Outlook Group.**

Close Opinion Polls

For the U.S., a Brexit would make global financial regulation more difficult as EU rules mostly likely would differ from their British counterparts. A split in Europe could make steering NATO policy harder. The EU also would become less friendly to the U.S., as Britain often acts as a political bridge

between the U.S. and Continental powers such as France and Germany.

Analysts are skeptical that the U.K. will vote to leave the EU. Opinion polls currently are close, with the pro-EU camp holding a narrow lead. But British election polls have been wrong before.

During last year's general election, pollsters predicted a hung parliament with no majority party. Instead, the Conservative Party won a surprise victory with a slim, though outright, majority in the House of Commons.

That political party is now split over Europe. Prime Minister David Cameron is campaigning to remain in the EU, while more than 100 Conservative members of Parliament, including London Mayor Boris Johnson and members of Cameron's cabinet, want to leave.

Though the EU is frequently referred to in some quarters as a sluggish mass of red tape, it was once considered a phoenix that rose from the ashes after centuries of war.

But its post-World War II successes have been overshadowed by the eurozone's recent economic malaise, the debt crisis and repeated battles over Greece, over Russia's invasion of Ukraine and over millions of refugees from the Mideast and Africa flooding into Europe.

'Splendid Isolation'

The U.K. in general — and the Conservative Party in particular — has been reluctant to involve itself too deeply in Continental Europe. In the late 19th century, Britain pursued a policy of "splendid isolation." A Conservative Party split over Europe led directly to Margaret Thatcher's downfall as prime minister in 1990. When the euro was adopted as a currency, Britain kept the pound.

As Europe's problems mounted after the financial crisis of 2008, the voices of those skeptical of the EU became louder across the union. In Britain, the populist United Kingdom Independence Party (UKIP) challenged the Conservatives on their right flank.

UKIP won 12.6% of the vote in last year's election, though it only won one seat in Parliament due to the U.K.'s first-past-the-post electoral system. But in response to the emerging electoral threat, Cameron promised a referendum on Britain's EU membership.

"Dissatisfaction with the EU is pretty widespread across the entire union," said William Adams, senior international economist at PNC Financial Services Group. "This is not going to be the end of political uncertainty around this EU project."

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