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Brexit: A Campaign and a Fatal Communication Disaster

Great Britain has lost an empire and has not yet found a role. The attempt to play a separate power role apart from Europe, a role based on a 'special relationship' with the US and on being the head of a 'commonwealth' which has no political structure, unity, or strength—this role is about played out.

Dean Acheson, former US Secretary of State, in famous speech
at West Point, 1962

*This above all: to thine own self be true, And it must follow as the night the day,
Thou canst not then be false to any man.*

William Shakespeare, Hamlet (Act I, Scene 3)

June 23, 2016, will forever be an important date in British history as on that day the historical Brexit referendum was held. The referendum resulted in a 51.9% majority in favor of the United Kingdom (UK) leaving the European Union (EU) which seems to be a rather clear result. It thus reversed both the decision of the Conservative Party-led Heath government to join the European Economic Community (EEC) in 1973 and the subsequent referendum on that membership in 1975, which had resulted in a two-thirds majority in favor of maintaining that EEC membership. The

referendum of 2016 could have dramatic consequences for the UK and the EU, which is facing the situation of a major member country having held a popular vote to give up EU membership for the first time. The EU, which celebrates 60 years of development in 2017, might not only face the UK's leaving of the community in 2019, but could also face a new situation in that the US, for the first time since the end of the Second World War, is no longer supportive of EU integration; this is the implication of Donald Trump's public support for Brexit in mid-2016. Exactly why EU disintegration would be in the interest of the US is difficult to understand.

The UK is the EU's second-largest economy, accounting for 18% of the European Union's Gross Domestic Product (GDP) and 13% of its population. Choosing a referendum, often considered the highest form of democratic decision-making, suggests a desire to apply a high-quality democratic tool to an important question and indeed a standard referendum—organized with care and decided by a clear majority—can resolve complex issues in a decisive way. Mr. David Cameron, the Prime Minister with responsibility for organizing this referendum (during his time as head of government he had already organized the 2014 referendum on the question of Scottish independence), chose to have a referendum for several reasons and he declared from the outset that his government was in favor of Remain. However, the referendum was in fact won by the Brexit majority, and the result seemed to be a clear indication that British voters really wanted the UK to leave the EU. But is it?

In her first speech as Prime Minister at a Conservative Party Conference—in Birmingham on October 2, 2016—Theresa May expressed the desire of the British government to start EU–UK negotiations no later than March 2017 so as to complete the largely unexpected Brexit process by spring 2019. In the words of Mrs. May: “Even now, some politicians—democratically elected politicians—say that the referendum isn't valid, that we need to have a second vote...others say they don't like the result, and they'll challenge any attempt to leave the European Union through the courts...But come on. The referendum result was clear. It was legitimate. It was the biggest vote for change this country has ever known. Brexit means Brexit—and we're going to make a success of it... We will invoke Article 50 no later than the end of March next year.” This book will show, however, that the referendum is

lacking in both legitimacy and clarity: that the result was in fact not clear at all. It was not the biggest vote for change in the history of the UK but an accidental Brexit vote, stemming largely from the chaotic situation regarding information and communication in the UK in the weeks before the referendum, the responsibility for which lies squarely with the Cameron government. By employing standard economic and econometric analysis, one can arrive at the finding that the result of an orderly, well-organized referendum on June 23 would have been a majority of roughly 52% for Remain. That the actual vote ended with a Leave majority is down to two key tragic and irresponsible figures: Mr. David Cameron as Prime Minister and Mr. George Osborne as the head of Her Majesty's Treasury—this will be shown in the first part of this book. As Sir Francis Bacon might have argued four centuries ago, there is no evidence that the referendum was organized in a way that is consistent with minimum Western information standards—thus, contrary to Prime Minister May, one may indeed question if Brexit really means Brexit.

This is one key analytical element which this book explores and in addition it raises doubts about the claims that Brexit could be an economic success. Mrs. May's mantra is an ill-founded, contradictory conjecture; Brexit could perhaps be a success for the Conservative Party and Mrs. May or indeed some investor groups, but that it could be an economic success for the UK and its people is very unlikely. The further conjecture of Mrs. May in Birmingham that the UK would never again give away so much sovereignty as it allegedly had until 2016, particularly that verdicts of the European Court of Justice would no longer be binding on the UK, is illustrative of a new British government approach—that is a willingness to undermine international law and to effectively destroy common institutional capital in the EU. That the UK could get easy access to the EU single market in future when the British government says that it does not want to accept verdicts of the European Court of Justice in single market matters is inconceivable. However, the more Mrs. May pursues a hard Brexit, as she suggested was her government's goal in her Brexit speech on January 17, 2017, the higher will be the economic costs for the UK (HM Govt 2017). Moreover, to suggest that the politico-economic power of an "independent" UK would be much greater than that of a UK which is still an

EU member, and benefitting from the support of four times the UK's economic power, is strange. In the twenty-first century, with China and the Association of Southeast Asian Nations (ASEAN) becoming new powerful mega players on world markets, the idea of going back to a nationalist UK runs counter to research, facts and real British opportunities and abilities. It is clear that a UK outside the EU may very well get some satisfactory solutions to certain issues on its own or as a permanent shadow state of the US, but in a broader view—looking at all key policy fields, issues and topics—this is an unconvincing view.

How big was the power of the UK in the EU? From an analytical perspective, one can use concepts from game theory—such as the Shapley Value or the Banzhaf Index. The latter measures the power of a country in an integration club with majority requirements in a rather simple way: look at the number of cases of all potential coalitions of countries where the respective country, here the UK, can change a 'losing' or minority coalition group into becoming a 'winner' or majority group simply by aligning itself with the group. With the exception of the field of tax policy, where unanimous voting is required for a decision to be made, there are various fields of economic policy (and other policy areas) where the UK enjoys a relatively high power status: it is in a position—due to the high number of votes that the UK has in weighted majority decision-making in the EU—to change a losing coalition into a winning coalition in many cases—giving the UK an effective deciding vote. Moreover, together with Germany, the Netherlands, and Denmark, it used to have a blocking minority so that certain protectionist measures could be avoided—thus the whole EU28 remained on a liberal trading track for decades. In the future, the post-Brexit UK will no longer sit at the table in Brussels. Instead of being able to cast the second highest number of votes in decisions being made by qualified majority in the EU, the British government in London will have to call on Berlin or Paris or The Hague in order to have its interests represented by proxy while decisions are being made at the EU table. On paper, the UK has more autonomy, but in effective power terms, Brexit actually means a critical loss of power.

That the UK could gain from leaving the EU is not a very convincing idea. Such a conjecture is all the more unlikely since the British

withdrawal is likely to destabilize the EU27 (which is roughly four times the economic size of the UK). How could the UK benefit from a political maneuver that amounts to a serious destabilization of its main trading partner? More instability in continental Europe will further undermine the potentially weakened union in Great Britain. It is also clear that other integration areas will watch the new disintegration dynamics in the EU with a critical interest, while powers in geographical proximity to the EU28 will most likely consider reinforcing their own positions in the international arena.

Among the early reactions of economists to Brexit—disregarding the German (longer) edition of this book (Welfens 2016c), which was published in November 2016—was the book by Baldwin et al. (2016) which carefully looked at some initial key findings and core options for Brexit policy. Critical forum contributions in the Journal *International Economics and Economic Policy* were offered by Ryan (2016), Welfens (2016b) and James (2016a). Harold James, the renowned Princeton historian, argued that Brexit was not a sensible decision and also that the referendum undermined the power of the British Parliament which traditionally is the key political institution of the UK. In my own contribution, I not only explained the key information blunder of the Cameron government, which greatly undermines the referendum's legitimacy, but also emphasized that the EU will need broader reforms which should bring less regulation but also—for the Eurozone—a political union. Cillian Ryan has argued that there is no economic theory which would be a convincing basis for expecting welfare benefits from Brexit.

In 2016, the EU28 was still the biggest single market in the world—with some 515 million inhabitants and a GDP of about \$17,000 billion. The European Union traces its roots back to integration steps taken during the 1950s, when the UK, at first, stood on the sidelines. At that time, the UK was a member of the European Free Trade Association (EFTA) which had been created by Denmark, Switzerland, Portugal, Sweden, and the UK in 1960. In 1986, Finland joined, with Liechtenstein and Iceland also later coming on board. Within EFTA, there were no tariffs on trade within that community; while as regards external tariffs, each member country had an individual import tariff list. This was different in the case of the European Union where

countries had agreed upon forming a Customs Union in which free trade within the EU was combined with a common external tariff. Free trade in an economic community stimulates intra-community trade and thus economic gains from specialization—this is a welfare-enhancing trade creation effect. Trade with outside countries is somewhat reduced (a trade diversion effect), however, if enhanced intra-community trade and enhanced foreign direct investment flows linked to the creation of the integration clubs raises real incomes sufficiently, the effect will be a rise of imports from third countries as well. Hence, the trade diversion effect could be rather limited in the long run and regional integration clubs could, under certain circumstances, contribute to reinforcing global trade liberalization.

The specific trait of the EU is that it has a joint external tariff. It is clear that agreement on such a joint tariff policy is a field of cooperation among member states and demonstrates vis-à-vis trading partners (i.e. third parties) that the community of European countries had achieved a basic consensus with regard to foreign trade policy. In effect, the common foreign trade policy became a trait of EU integration; a joint tariff policy means efficiency gains compared to a situation of individual import tariffs. The 1960s witnessed a certain rivalry between the EU and the EFTA, but the European Union grew increasingly attractive to many EFTA countries—mainly because the economic heavyweights of continental Western Europe were participants in that community. Over time, most EFTA countries eventually joined the EU—including the UK and Denmark—who along with Ireland joined the EU in 1973. With Brexit, Europe seems to move backwards to the 1970s and possibly even further back.

After more than four decades of UK integration in the EU, the British referendum of 2016 has brought the chapter of uninterrupted EU expansion to an end. The traditional political wisdom, which held that the European Union could overcome any crisis and continue relatively unscathed on a journey towards further development and expansion, has been soundly refuted. The Brexit crisis reinforces anti-EU political parties in many EU countries and at the same time it seems that the economic benefits of EU integration were not sufficiently strong to convince the roughly 17 million voters who said no to EU

integration. However, this is a popular misreading of Brexit, the information background of which has not been critically discussed so far.

Besides a strong nominal and real depreciation of the British Pound, there were no serious negative effects on the UK economy in 2016 and many observers might have the view that Brexit will have no impact on the economic welfare of the people of the UK. This, however, is a misleading view since the main dynamics will not unfold before the UK government's official 'divorce' letter to the European Commission and the EU27 partners has been sent to Brussels. At the Birmingham Conservative Party Conference in late 2016, Prime Minister May announced that this letter—required by Article 50 of the EU Treaty—would be sent to Brussels no later than the end of March 2017. As regards the long-term economic impulses of Brexit, the main effects will become visible once it is clear under exactly what conditions the UK will regain access to the EU single market—which would stand for 430 million people in 2020. The more restricted this future access will be, the larger the negative output effects of Brexit. In addition to these aspects, one should be careful not to ignore the stabilizing interventions of the Bank of England—cutting the interest rate to a record low in the weeks after the referendum—and the government, respectively. To the extent that the Trump administration's first two years bring an economic upswing for the USA and a real appreciation of the US Dollar, there are also new export opportunities for the UK, and this should help to stabilize British output dynamics.

If the UK should leave the EU in 2019 on the basis of the Brexit referendum held in June 2016, then to some extent the obvious question is where is the UK headed? Will Great Britain really go it alone in the twenty-first century? That is hard to imagine. On the other hand, the UK could attempt to found a sort of enhanced EFTA ("EFTA+"), and with that the EU would face two difficulties: with the exit of the UK, the EU would have lost almost 20% of its economic weight; furthermore the UK, its second-largest EU member state (as of 2016), is large enough in the event of Brexit to attract other dissatisfied EU countries to follow it. The EU will not be able to defend itself against that eventuality via some sort of EU–UK trade and cooperation agreement. From an economic perspective, one may argue that competition for members

between EFTA+ and EU27 could be a framework for achieving an efficient integration process in Europe. This, however, is not very likely, rather EU disintegration dynamics are likely to be the dominating phenomenon. Moreover, it is obvious that the UK could consider options for attracting new members to EFTA+ including by offering effective subsidization by means of transfer payments and of military or political support arrangements to would-be members. The key issue here is the question of what the UK stands to gain from a destabilized continental Europe—obviously not really much.

Incidentally, these elements were highlighted in the run-up to the Scottish independence referendum in 2014 in a UK government information brochure (HM Govt 2014b) which explained that within the British union, Scotland is a recipient of de facto net transfers worth £1,400 (ca. \$1,700) per capita from England, that as a constituent part of the union Scotland enjoys both military and political protection, as well as that Scottish citizens enjoy advantages worldwide via the services of UK embassies. In the event of an integration competition with the EU, the UK could potentially, and at least initially, employ considerable financial resources, as with Brexit circa £8 billion/\$9.8 billion (or 0.4% of UK GDP in 2014 terms) in annual contribution payments to the EU have become available in terms of public finances. To look at the EU budget contribution of 2015 is misleading since this contains a one-off effect of cumulated postponed British contributions over several years—reflecting an upward revision of the UK's GDP. However, part of these former annual net contributions to the EU will be needed for future new contributions to the EU in a deal to give Great Britain access to the EU single market. Keeping Scotland in the UK will have a price tag as well and this, together with a small rise in the military budget, is likely to erase any major net budget gain for the UK: with the UK outside of the EU, the weaker EU27 and indeed the whole of Europe will be much more exposed to military pressure from Russia and other sources of instability so that a rise of the military expenditure-GDP ratio in the medium term is rather likely.

In the event of Brexit, the European integration project will once again be called into question, a situation which will create unrest in Europe. This will put the EU under pressure, but whether the EU and

its member states can undertake smart and timely reforms is unclear. Russia and China, as well as the US, will consider the smaller EU as a weaker political and economic actor and thus new pressures on the EU27 on the world stage could quickly emerge. This option already weakens the politico-economic position of the EU27.

At the same time, the UK is facing another potential Scottish independence referendum once it has become clear how good or bad British access to the EU single market will be. Once the finer details of a future EU–UK treaty are known, the debate about Scottish independence, and an independent Scotland’s membership of the EU, will likely emerge and cause serious divisions—again undermining the stability of the UK for some time and weakening, disregarding the outcome of the debate, the union of England, Scotland, Wales, and Northern Ireland. Getting the same critical referendum on Scottish independence back on the political agenda within a few short years is not a normal situation.

In a statement released prior to the Scottish independence referendum (“Scottish Referendum: Our place in the world,” published on April 28, 2014 [HM Govt 2014a]) in a section on the EU, and sent to voters as a brochure, the British government explained to voters:

We are a member of the EU on terms which would be hard to negotiate again. Thanks to our influence and long-term negotiations, the UK has unique terms for our membership of the EU. This includes keeping the UK pound and the ability to control our own borders and immigration policy. The UK’s rebate means that the average Scottish household saves between £750 and £1,470 per year between 2014 and 2010 on the cost of EU membership (PJJW: that is between \$915 and \$1,795 per year). If Scotland leaves the UK it would need to start formal negotiations to join the EU as a new member state—a lengthy and costly process.

It will be difficult to assess prior to 2025 what Brexit will actually entail. The actual UK withdrawal is expected to occur before the European elections in 2019. Certainly, it would be strange indeed if the UK government was still negotiating a withdrawal from European Union while also holding elections for the European Parliament. If such a situation would occur, a strong vote for pro-EU parties could undermine the

signal of the 2016 referendum in an opaque way. The economic adjustment processes for the UK and the EU27 would take about a decade and this period will be shaped by reduced growth dynamics as by then the negative economic effects of EU disintegration would have been felt.

Facing the pressure of a reduced growth rate, the British government is likely to implement internal pro-growth reforms and push for a series of new trade treaties for the UK. Leaving the European Union means that the UK would lose privileged access to about 50 countries to which British exports have so far enjoyed favorable access under the EU umbrella. While some free trade arrangements with certain Commonwealth countries, including Canada and Australia, would probably be relatively easy to achieve, these trade relations are not decisive for the UK in quantitative terms. With obvious hesitancy on the part of Germany and France regarding the envisaged EU–US Transatlantic Trade and Investment Partnership (TTIP) venture, the opportunities for a UK–US agreement on a transatlantic free trade project should not be difficult to exploit: a UK–US TTIP is not only quite important for the UK but would also be quite attractive for the US, since the British market represents 25% of US exports to the EU28. Moreover, US investors represent, via production by US subsidiaries in the UK, about 6% of British GDP and for British economic development it will be quite important to have closer UK–US economic relations once the economic relations with continental Europe have been weakened through Brexit. Based on BEA data (see Table 2.1), it is obvious that the US multinationals' direct output impact in the UK is rather large, namely about three times the figure for France, just

Table 2.1 The GDP share generated by US subsidiaries in Europe (and selected European countries)

Country	2009 (%)	2010 (%)	2011 (%)	2012 (%)	2013 (%)	2014 (%)
EU	3.00	2.98	3.01	3.22	3.01	3.16
France	1.94	1.90	1.91	1.87	1.87	1.94
Germany	2.55	2.50	2.46	2.36	2.36	2.47
UK	6.58	6.31	6.09	5.84	5.84	5.75

Source BEA database and WDI database. EIIW calculations: *Note* data is taken from all Majority-Owned Bank and Non-Bank

under two and a half times the figure for Germany and almost double the European Union average. Hence, if one considers the findings of Francois et al. (2013) that reducing transatlantic FDI barriers will raise employment in US subsidiaries by 11%, one may conclude in a simplified analysis—assuming that output would also be raised by the same percentage—that British output could be raised by about 0.7% if a transatlantic UK–US TTIP could be achieved along the lines originally envisaged for the bigger EU–US TTIP project.

At the same time, it is clear that Franco-German doubts in the field of TTIP considerably undermine growth prospects for many EU countries, including—paradoxically—Germany and France themselves. Jungmittag/Welfens (2016) have calculated, based on a panel data analysis of 20 EU countries looking at knowledge dynamics in the context of cumulated foreign direct investment inflows, researchers employed and per capita income, that for Germany one would expect about 2% long-run real income growth from TTIP. Brexit, in combination with British initiatives for new free trade agreements, will certainly put the EU27 under pressure. Whether or not a pro-free trade initiative will really raise British GDP sufficiently enough to counterbalance negative EU disintegration impulses remains to be seen and will be discussed subsequently.

Neither the UK nor the EU27 will be in a position to simply adopt a ‘wait-and-see’ attitude in the field of trade liberalization, since the world’s largest economy, China (measured by purchasing power parity GDP) could roughly double its GDP again by 2029 assuming growth rates of 5%. The traditional logic of the EU integration process would normally be in favor of TTIP, since the history of the EU itself consists of so many favorable integration dynamics that political support for a transatlantic deal should be strong. This holds even if one would have to engage in difficult negotiations with the US about issues surrounding investor-state dispute settlement and the fact that foreign investors should get a privileged framework for settling disputes with governments in host countries—at least if it proceeds according to US wishes and negotiation priorities. Before we turn to the particular circumstances of the Brexit referendum, it is worth briefly recalling some key aspects of the history of EU integration and highlighting some core issues of integration dynamics.

EU Integration Approaches in a Historical Perspective

The idea of European integration emerged over centuries and gained in terms of political importance following the end of the First World War; however, no real political progress was made; despite some impulses in the middle of the 1920s—with Aristide Briand and Gustav Stresemann as the respective foreign ministers of France and Germany—it was not possible to launch Franco-German reconciliation and concurrent economic and political cooperation. The Second World War and its over 50 million dead followed. Only after 1945—with the support of the US via the Marshall Plan and aid for a new European Payments Union—was it possible by the early 1950s for a concrete integration project to emerge, namely the founding of the so-called Montanunion, that is the European Coal and Steel Community (ECSC) in 1952, where Luxembourg became home to the political headquarters of the institutions of the ECSC. The European Communities—which later became the European Union—were founded in 1957, the founding members of which were the member states of the ECSC: Germany, France, Italy, Belgium, the Netherlands, and Luxembourg. At that stage, the UK had no wish to participate. While Winston Churchill had called in his 1948 speech in Zürich for the establishment of a “united states of Europe,” he was expressly suggesting European integration without the UK—the position of power of which he saw as being most likely as the head of the Commonwealth—that is in close connection with the former British colonies.

It is interesting to read the Leave campaign websites and find there the idea that the UK should again strive for a great international role—after Brexit—in the context of a more active Commonwealth strategy. This leaves open obvious two questions:

- Will a new Commonwealth strategy of the UK be welcomed by other Commonwealth member countries?
- Could a new British Commonwealth strategy create major benefits for the UK?

The UK joined the EEC under Conservative Prime Minister Edward Heath in 1973, but after he suffered a defeat in the next general election, it was the Labour Party that raised critical questions about British membership and obtained some additional concessions in negotiations with Brussels and the EU, respectively. It was a Labour government, under Harold Wilson, which organized a first referendum in the UK on EU membership in 1975, which resulted in a two-thirds majority in favor of remaining a member. Under Prime Minister Cameron, the second British referendum—in 2016—brought a very different result. David Cameron became Prime Minister in a coalition government in 2010 and only following his successful re-election in 2015—with a clear majority for the Conservative Party in parliament—could Cameron form a strong and stable government. However, he viewed the large number of Conservative EU critics as a problem: one year previously, the anti-EU United Kingdom Independence Party (UKIP) had secured 28% of the vote in European Parliament elections. The leader of UKIP, Nigel Farage, was himself once a member of the Conservative Party and had campaigned, as a Member of the European Parliament, for 17 years for a UK exit from the EU. Following his victory in the 2015 national elections, Cameron wanted to neutralize the anti-EU forces within his party—by means of a prompt and hopefully successful EU referendum. Prime Minister Cameron had already announced in 2013 that should he be re-elected, he would hold a referendum on the UK's EU membership. On February 20, 2016, the British newspaper, *The Guardian*, reported that Prime Minister Cameron had decided on June 23 the same year as the date of the referendum—the vote was scheduled to be held following the, at least from the UK's point of view, successful negotiations with the EU. These negotiations had secured a special role for the UK within the EU into the future—including limitations on how immigrants from EU countries could benefit from the British social welfare system and certain clarifications about Britain's role as a non-Eurozone country, and in turn Cameron supported continuing membership of the EU; furthermore, leaving the EU would mean endangering the UK's economic and national security. According to *The Guardian*, Cameron said “We are approaching one of the biggest decisions this country will face in our lifetimes: whether to remain in

a reformed EU or to leave. The choice goes to the heart of the kind of country we want to be and the future we want for our children” (Mason et al. 2016).

There was an official grouping of Brexit supporters (the “Vote Leave” campaign) and an official—that is recognized by the state—pro-EU group, namely “Britain Stronger in Europe” (formally: the In Campaign Ltd.). Over the course of four months, these organizations, and indeed other lobby and interest groups, mobilized the voters for the referendum on June 23. In this book, the term “Leave campaign” is intended to be a catch-all phrase for all those who backed Brexit. Additionally, from the side of a fractured cabinet—with six ministers publicly supporting the Brexit side—came a government information and mobilization campaign (supplying information to households, see appendix). Prime Minister Cameron was massively involved in the campaign, however with little persuasiveness and the campaign lacked a certain level of credibility; possibly because for many years Cameron’s speeches as Prime Minister had indicated that he was the head British Tory critic of the EU. Despite Cameron calling for a Remain vote, the six pro-Brexit ministers in his cabinet were allowed to remain in government even though the great electoral winner, David Cameron, could have dismissed these ministers rather easily; certainly, there would have been an inner party conflict within the Conservative Party, but at least a clear direction for the government campaign would have been visible. Despite very close opinion poll results, Cameron’s side was still extremely confident that they would win the referendum; not even the financial markets, in the two weeks prior to the referendum, seemed to believe that a pro-Brexit majority would emerge—there was an appreciation of the Pound Sterling. The betting firms, often seen as extremely accurate predictors, also foresaw a pro-EU majority in the vote in the referendum. Both the financial markets in the run-up to the referendum—particularly during the two weeks before June 23—and punters on the street were betting on a vote to remain in the EU as was indicated by the implied probability of a Remain vote according to the betting companies. The opinion polls did indicate a narrow outcome, but the wisdom of capital markets suggested a clear Remain result. Thus

came the surprise news in the early morning of June 24 that there had actually been a pro-Brexit majority of 51.9%.

Key European Issues in the Eyes of Voters

According to Opinium Research surveys (as reported in *The Guardian* (2016)), the main themes in relation to Brexit were immigration and problems regarding the National Health Service (NHS)—indirectly caused by waiting times which were also connected to the number of immigrants—having been cited by more than 50% of respondents. In answer to the question on the three most important topics related to Europe out of the following: the relationship between the UK and EU, economic issues, poverty problems, the housing market, poverty/inequality, low wages, and unemployment, respondents were able to give multiple responses.

However, when asked for the “three most important issues for you and your family,” then the most common responses were the NHS (50%); the economy, low wages, and immigration (each with over 20%); the relationship between the EU and the UK; the housing market; the education system; and poverty/inequality. Here, one can discern that the huge cuts imposed by the Cameron governments on transfers to local government and the budget of the NHS were perceived as the major problem. The issue of rising rents is not an EU-related problem, but is indicative of deficits in terms of British construction policies with regard to residential properties. In relation to poverty, inequality, low wages, unemployment, and the education system, Cameron’s governments imposed cutbacks and allowed a doubling of tuition fees after the Banking Crisis—again, the EU is not involved. European Parliament elections are known to have often served a scapegoat function in the sense that voters are less likely to voice concerns about critical EU politics, but rather want to indicate frustration about national policies; here the British referendum clearly also faced the problem that the voting decision was overloaded with domestic issues that were not really related to the question asked on the voting day, which was:

Should the United Kingdom remain a member of the European Union or leave the European Union?

Fighting poverty and providing affordable high-quality education are not really EU policy fields. It is, however, true that the Transatlantic Banking Crisis of 2008/09 brought enormous increases in terms of university tuition fees (raising fees by a factor of two or three). Government budget deficits after the Banking Crisis had been so high—initially above 10% of GDP—that the Cameron government desperately considered all kinds of revenue raising and cost cutting measures. The referendum result seemed to indicate broad frustration with key elements of Cameron's economic policy and faced with a referendum result, which was in large part a protest vote against his government, Prime Minister Cameron quickly stepped down.

After several rather chaotic days, a new Prime Minister was selected with the Tory nomination of Mrs. Theresa May, former Home Secretary, as new party leader of the Conservatives. Among the key promises of her government, Mrs. May indicated that she wanted a society and economic system which would deliver benefits not only for a few people but for everybody. This all sounded as if Mrs. May had carefully listened to the voters' priority list mentioned above. However, as regards the upcoming new policies of the May government, it is already quite clear that they will not result in less inequality and poverty, but rather inequality will become more pervasive as the government will push for more economic globalization through pursuing more far-reaching free trade agreements. That is not to say that free trade agreements would not generate economic benefits through real aggregate income gains, however, as Jaumotte/Lall/Papageorgiou (2008) have shown, the interplay of trade globalization, technological progress—with an emphasis on an expansion of information and communication technology—and financial globalization is reducing international per capita differences across countries, but is also raising the skilled wage premium in all industrialized countries. Given the poor record of British active labor market policies over many years—with the UK spending about a quarter of what Germany spends per person unemployed—one cannot expect that the British government will have

a convincing package of measures to handle the envisaged accelerated globalization that will be an indirect consequence of Brexit in the UK.

What were the main arguments of the Leave versus the Remain campaign? In a paper of the US Congressional Research Service, one can find the following list (Mix 2016) which is included as an excerpt here:

- the EU has eroded national sovereignty by shifting control over many areas of decision-making from national leaders to Brussels;
- the EU lacks democratic legitimacy and accountability because many of its decisions are made behind closed doors by non-British and/or unelected officials;
- EU bureaucracy and regulations stifle the UK's economic dynamism;
- the UK would be better off freed from the EU's rules and regulations and able to focus more on expanding ties to growing and dynamic emerging economies elsewhere;
- the UK's contributions to the EU budget are too expensive;
- high levels of immigration to the UK from Central and Eastern Europe mean fewer jobs and lower wages for British citizens; and
- Brexit would have a minimal effect on security cooperation and defense issues because the UK would remain a leading member of NATO.

Arguments for a continuance of UK membership of the EU include the fact that

- membership is essential for the UK's economic fortunes, as half of the UK's exports go to the EU "single market";
- EU membership serves as a launchpad for the UK's global trade;
- Brexit would mean losing out on the benefits of the prospective US–EU comprehensive free trade agreement, the Transatlantic Trade and Investment Partnership (T-TIP);
- the EU has many shortcomings, but the UK is "better off fighting from the inside";
- EU membership gives the UK a stronger voice and more influence in foreign policy;

- the EU has important transnational security dimensions, and Brexit would “divide the West,” weakening its ability to deal with threats such as terrorism and Russian aggression; and
- Brexit is a “leap in the dark,” with uncertain consequences and no clear vision of what a post-EU future would look like.

So, in the end, it seems to be clear that the UK, the sixth largest economy in the world, was heading towards a historical decision with many important key issues to be decided in a referendum that had been on the political radar since 2013.

A Majority for Brexit

Just four months after the referendum was announced in the UK, a slim majority of just 51.9% voted against continued UK membership of the European Union, where primarily older voters and voters from the English industrial midlands tended to vote strongly in favor of an exit: in other words, for Brexit. Northern Ireland, Scotland, and London, on the other hand, delivered relatively clear pro-EU majorities. With the exception of London, most English regions returned a pro-Brexit vote. Beyond the regional perspective, there is a clear distinction between younger and older generations, the elderly being in favor of Leave. For the younger generations with a clear pro-EU majority, the non-binding referendum stands for a bitter result as their desired European future seems to be clouded by the coming Brexit. After it had become clear that the Brexit referendum had gone disastrously wrong for Prime Minister Cameron, he announced his decision to step down—the new Prime Minister should be chosen by October 2016, and only then should the new incoming leader of government trigger Article 50 of the Lisbon Treaty and in doing so convey to the EU its official intention to withdraw from the Union. A chaotic next couple of weeks followed until July 13 when the new Prime Minister, Theresa May, assumed office. She declared “Brexit means Brexit, and we’re going to make a success of it.” How this success is going to happen remains as yet unclear, as will be pointed out later, since Brexit will not be easy

to implement nor are there many valid arguments which suggest that Brexit will be a success story in economic terms.

The winning margin of Leave over Remain was 1.3 million votes. One strange finding on the day after the referendum was the spike in Google's trend statistics which showed a massive increase in EU-related questions being entered in the search engine in the UK. The second most frequent EU-related question was "What is the EU?" Does this point to a lack of information in a referendum which is regarded as the ultimate decision-making instrument in a democracy? One may emphasize that knowledge about the EU seems to be rather modest in the UK according to a recent survey: just 49% of British respondents could give at least one correct answer to two very basic questions about the EU, 4 percentage points less than Polish respondents (53%)—with Poland acceding to the EU 31 years after the UK. The respective figures for Germany and Italy were 81% and 80%, respectively (Bertelsmann Foundation 2016).

From an economic perspective, the foreseeable Brexit effects are clearly negative as many studies show, including a study by the UK's own Treasury which puts the long-run output decline at an expected 3–10% (HM Government 2016b). These and other economic findings were not communicated to private households and voters. This is a major problem and in fact represents an information blunder so fundamental that it needs to be analyzed in more detail.

As regards the rather unexpected referendum result, many politicians and European experts were rather surprised about the Brexit majority of June 23. However, in a March 30, 2016, contribution for AICGS/The Johns Hopkins University, this author wrote (Welfens 2016a):

On 23 June 2016, should a majority of British voters decide to leave the EU—nearly forty-five years after joining the Community—the EU would lose 17 percent of its GDP and 12 percent of its population. This referendum result would reveal Prime Minister David Cameron's poor political calculations and he would now find that his pro-EU membership campaign has failed miserably. The great winner of the British election of 2015 will step down as prime minister after the failed referendum, while UKIP anti-EU activists cheer on the developments as do other anti-EU

forces. As regards Cameron's potential defeat, there has been a moral failure on the part of the prime minister: he had assigned a special taskforce of scientists to write a critical EU Report in 2014 and the result had been that in no field was the EU a serious impediment to British interest and British policy; the division of competences between Brussels and London could be improved in some fields but there were no serious inconsistencies—a message that was not clearly communicated to the British public. The final chapters of the report were published in 2015.

The main reason that so many British citizens are rather skeptical about EU membership and immigration, respectively, is the fact that after the Transatlantic Banking Crisis national government funding of local communities has been strongly reduced—sometimes not only reflecting adjustment pressure from high government deficit–GDP ratios, but conservative ideology as well; in communities facing reduced government services and excess demand problems in the health care system, sustained immigration pressure from the EU partner countries (and other countries) has created a general impression of overcrowding problems. It is unclear whether the pro-EU supporters can convey the message that EU membership for the UK is a rational choice, since leaving the UK will raise the question about the future relationship between the UK and the EU—if the UK would follow the Swiss or Norwegian model, the price tag for full access to the EU single market will be not only to accept most EU rules, but to contribute to the EU budget as well.

It is true that Cameron is not the only element to blame for the negative British referendum result. Angela Merkel's chaotic refugee policy of 2015 has certainly reinforced those British voters who are afraid of immigration and the EU's immigration policy—which has exposed just how poor the EU's ability to defend its own southern external borders really is. As Margaret Thatcher once said in the context of Britain potentially joining the EU Schengen treaty, which allows the free circulation of people in continental EU countries: we are not going to rely on Greek civil servants to effectively control the access of foreigners to the UK. All the pictures of the EU refugee crisis of 2015 and early 2016 have simply illustrated the chaotic refugee policy of Germany and the EU, respectively: with Greece being totally overwhelmed with the task of controlling its external borders and providing sufficient humanitarian aid to the refugees.

Gideon Rachman's article in the *Financial Times* of March 21, 2016 describes the post-transatlantic banking crisis world where many voters are fed up with the old political elites. There exists the problem that "the political establishments in Washington and London find it hard to believe that the public will ultimately make a choice that the establishment regards as self-evidently stupid. However, in Britain, as in the US, politics has taken a populist and unpredictable turn. The financial crisis and its aftermath have undermined faith in the judgement of elites. High levels of immigration and fear of terrorism have increased the temptation to try and pull up the drawbridge and retreat behind national frontiers."

The Brussels terror attack of March 22, 2016, has reinforced the fear of terrorism and many British citizens think—reinforced by Leave activists—that living outside the EU, and thus being somehow protected from terrorist attack, is an argument in favor of Brexit. Anti-terror specialists would not agree with this, but simple answers are always popular.

The anti-EU supporters think that the UK alone will be better off than being a member country of the EU. The economic logic contradicts this view completely: the short-term economic gain is that the UK could save only about 0.4% of GDP in net contributions to the EU, but the rather poor future UK position at the international negotiating table will certainly cost the UK far more than this relatively small amount, while the UK will also experience a decrease in attractiveness for foreign investors who instead will want to invest more in continental EU countries in the future. A real depreciation of the British pound along with Brexit means that British exports will increase in real terms, but in the end the key message is that, for a given amount of imports of goods, the average British citizen will have to export more domestically produced goods so that there is a welfare loss.

Moreover, a real depreciation means that foreign investors will obtain British assets at a discount, but this is only an advantage to investors from the US, Euro countries, Russia, and Arab countries. In order to get access to the EU single market in the future, the UK would have to follow most EU regulations and would also have to make some payments toward the EU's budget so that even on the budget side there would not be a net gain for the UK. The devaluation of the British pound in the run-up to June 23 could become very significant and force the Bank of England to massively intervene in the market as liquidity could dry out and asset prices

could fall dramatically as international investors anticipate the UK leaving the EU. One cannot rule out that such financial turmoil will be a last minute signal to tilt the balance at the Brexit referendum in favor of pro-EU votes. Undecided voters will be influenced by financial market signals.

The UK will lose its position in all EU-funded research projects and British innovation dynamics will suffer from this, as well as from the fact that UK tuition fees for students from the EU will strongly increase so that less skilled talent from the European continent will be attracted to study there. The UK will be a weaker actor in Europe and in the world economy—as will the EU itself without the UK. The European Union would look like a fragile union after Brexit and this means that its political weight would decline internationally. The true winners in a global perspective would thus be Russia, the US, and China. From a European perspective, the winners will also be anti-EU parties, particularly those in the Euro area, and this could also bring new problems for the Euro area. Since March 2016, Germany has faced political destabilization when the populist Alternative for Germany (AfD), a right-wing party expressing xenophobic sentiments, obtained double-digit voting shares in three German states, including the economic powerhouse of Baden-Württemberg, which has 13% of the population of Germany.

The AfD is the mirror party of UKIP to some extent and it was created in 2013 as an anti-Euro party mainly by a group of concerned German economists (Bernd Lucke, Joachim Starbatty, Olaf Henkel), none of them an expert on monetary integration. By late 2015 they already had left the AfD over internal conflicts and had created a new party “Alpha,” which does not play a role in Germany. The AfD benefited from a widespread uneasy feeling among many citizens who have become nervous—not least from the very many alarmistic Ifo Institute reports on the Eurozone. In a biased approach to the issues, only worst-case scenarios were published that naturally were picked up by the popular press according to the old saying “bad news is good news.” Hans Werner Sinn, the president of the partly government-financed Ifo Institute in Munich, argued in his worst-case scenarios in 2012/2013 that German taxpayers could lose up to 30% of GDP in the Euro Crisis; the true costs are less than 1% of GDP so far. Beatrix von Storch, a leading AfD figure, was so nervous at some point that she took AfD funds from the bank to keep it in cash at home since she was afraid that the Euro could go out of business.

With more regional elections coming—and the national election in 2017—the AfD will no doubt expand further and this undermines political stability in Germany and a fortiori in the EU. Less political stability implies that there will be a risk premium expected from the perspective of foreign investors and hence Germany will have lower foreign direct investment (disregarding a temporary higher inflow stemming from disappointed foreign investors after Brexit shifting investment from the UK to Germany) and hence lower innovation dynamics and weaker economic growth. All this will be reinforced by the xenophobic AfD, which also sends a negative signal to foreign investors. For Germany, there will be some temptation to really become the dominant EU country of this smaller Community, but that this would be a useful development for the EU as a whole may be doubted.

A weaker EU is less attractive as a political and economic partner for the US and China, the two economic superpowers of the twenty-first century. There is nothing that the UK could gain from less political stability and lower economic growth in continental Europe. Instead, the UK would most likely come under increased pressure from the US to more often support US foreign policy maneuvers and military actions—and this is certainly not a free lunch either.

It is absolutely clear, therefore, that the long-run result of Brexit will be quite negative for the UK. The British economy will be directly weakened, continental Europe will become weaker as well, and the negative economic spillovers from the diminished EU to the weakened UK will be strong. If the EU output should drop (disregarding the pure output reduction related to the UK's leaving of the EU) by 2% in the long run through the immediate Brexit effect, British output should decline by 1–1.5%. This will come on top of the direct output reduction effect of Brexit, which could reach 3–5% in the long run. British output decline during the Great Depression of the 1930s was 6% over two consecutive years of recession. The main difference now will be that the British output decline will be spread over about a decade or so.

A shrinking and unstable EU will cause further instability in the world economy, as other regional integration schemes—e.g., ASEAN in Asia and Mercosur in Latin America—will also be destabilized. With the EU no longer being a stable integration club, there will be doubts about the stability of other integration clubs as well and this will contribute to

more regional conflicts and reduced global growth as well as more political nationalism and economic protectionism. Reduced international economic integration typically also means more conflicts so that military expenditures will increase in Europe and indeed worldwide. The Brexit equation has no winners, but will have many losers. Whether Brexit will, in the end, also lead to a new Scottish independence referendum also remains to be seen. At the bottom line, Brexit stands for political brinkmanship in the UK.

Many economists and historians have expressed their views on the Brexit referendum and the overwhelming majority have warned of the negative economic consequences of the UK leaving the EU28. Harold James (2016b) gave an interesting interview to the *Neue Zürcher Zeitung* on July 2, 2016, in which he pointed out that the Remain campaign had overemphasized the potential negative effects of Brexit and had not sufficiently underlined the strong joint benefits of EU integration. Thus, the establishment created the impression that a Remain vote would reflect the fact that the UK had no alternative and such a blocking of political thinking was apparently not accepted by the majority of voters. Moreover, the relevant key scenarios of an actual Brexit had not been developed by the Leave campaign, so that British voters did not really understand the alternative paths the referendum had really offered. At the bottom line, Harold James considered the Brexit referendum outcome to be a historical watershed moment and he suggested that Brexit will bring about a broader perception about the interdependency of major economies in the world in the early twenty-first century.

Brexit is a new decisive political step in the EU, although one might point out that Algeria effectively left the EU in 1962 when the country became independent from France (until then Algeria had been considered an integral part of France) and Greenland has also left the EU, namely when the island decided that it wanted to become independent from Denmark. Brexit is a serious weakening of the EU as it will lose almost 1/5th of its economic weight and also be without the UK's military power and the global British diplomatic network, including the British vote on the UN Security Council. So far, British political decisions have very often been made in such a way as to partly also consider

EU policy action. Looking at Brexit with this in mind, it should be clear that in negotiations with the UK, the EU should offer more generous conditions to the powerful former member than were realized in treaties with Norway or Switzerland. As regards transatlantic trade and investment, one may also point out that the UK is the most important EU partner within the EU28. With Brexit implemented, Germany may assume this role.

It is true that the UK will have to face some negative short-term economic consequences of Brexit, but the short-term effects should naturally be smaller than the long-term effects. Declining order inflows in the UK during the summer of 2016 and massively worsening economic climate indicators in July–September 2016 were the first flashing warning lights on the economic consequences of Brexit.

British Anti-EU Sentiments Partially to be Anticipated in Spring 2016

The wish of the Britons to withdraw from the EU was even in the spring of 2016 only somewhat apparent—for example in the research of Curtice (2015). However, the EU’s own Eurobarometer survey showed that even in May, 31% of British respondents had a positive view of the EU; a share not much different to those found in Austria or Germany (see Table 2.2). The figures from the UK were clearly higher than in Cyprus and Greece, where there are so few clear EU supporters that one could imagine an EU exit by those countries as probable. The share of Total ‘Negative’ is a better indicator of a critical mass against EU membership amongst the Britons surveyed, which was 36% in the May 2016 Eurobarometer poll (the EU average was 27%). Was the European Commission not also warned by Cameron and his predecessor Tony Blair? After Blair’s last appearance in Brussels in June 2007, the then President of the European Commission Manuel Barroso said, “The point I have to say is that in Britain, honestly, the debate for Europe is not yet won” (translated from Kielinger 2009, p. 250).

Table 2.2 Attitude towards the EU (%), fieldwork carried out in spring 2016 (Ranked in order of "Total Positive")

	Total positive	Sp. '16– Aut. '15	Neutral	Sp. '16– Aut. '15	Total negative	Sp. '16– Aut. '15	Don't know
Ireland	58	+4	27	−3	14	0	1
Bulgaria	51	+3	30	−4	17	0	2
Poland	47	−8	37	+2	15	+8	1
Luxembourg	45	0	32	−3	22	+2	1
Lithuania	43	−10	47	+7	9	+3	1
Romania	42	−15	43	+11	14	+5	1
Malta	41	−2	43	−3	13	+3	3
Portugal	41	−1	39	−2	18	+3	2
Croatia	37	−14	43	+6	19	+7	1
Sweden	36	−6	38	+2	26	+1	0
France	36	+1	33	−5	29	+4	2
Belgium	35	−4	33	−5	31	+8	1
Denmark	34	−2	42	−3	23	+5	1
EU28	34	−3	38	0	27	+4	1
Estonia	33	−3	47	−3	17	+5	3
Finland	33	+1	44	−4	22	+2	1
Hungary	33	−6	41	+1	25	+5	1
Netherlands	33	−1	38	−3	29	+4	0
Slovenia	32	−1	46	+1	20	−1	2
Italy	32	−6	38	+1	27	+4	3
Austria	32	+9	30	−5	37	−4	1
Latvia	31	−1	49	=	18	+1	2
U.K.	31	+1	31	−5	36	+5	2
Spain	30	−3	44	−2	23	+5	3
Slovakia	30	−5	43	+3	26	+2	1
Germany	29	−5	41	+3	29	+2	1
Cyprus	27	+5	32	−4	41	0	0
Czech Rep.	26	−1	40	−2	34	+3	0
Greece	16	−6	33	−7	51	+13	0

Source European Commission, Standard barometer 85—Spring 2016 (fieldwork carried out May), "Public opinion in the European Union , first results, QA9, p. 16, Brussels

Almost a decade was obviously not enough time for the Commission to form a sustainable bond between the UK and the EU—and in truth, the Commission did not really attempt much in that regard. There were no great speeches in London by EU Commissioners, not

even by the President of the Commission, prior to the Brexit vote, nor can one speak of the relocation of important EU institutions to the UK apart from the banking supervision body the European Banking Authority (EBA) in London. On the other hand, one can acknowledge that German Finance Minister Schäuble delivered a speech in London in which he argued for the UK to remain part of the EU. Clearly, one might argue that Cameron had signaled to Brussels that a Juncker speech in London would not have been welcome and such a warning, combined with the natural restraint in Brussels when it comes to direct involvement in major national policy decisions, might be a plausible reason for the Commission President having remained in Brussels—but in the end such a strategy is not convincing and indeed a signal of the weakness of EU institutions.

In the Eurobarometer Survey from May 2016, the negative responses are also interesting for EU integration. Very negative attitudes towards the EU were found in the crisis countries of Cyprus and Greece with 41% and 51% ‘Total Negative,’ respectively. The Czech Republic, with 34% ‘Total Negative,’ also showed a relatively high level of anti-EU feeling. The negative image of the EU has also clearly risen in Poland, Romania, Croatia, Belgium, Hungary, Spain, and Greece (by 13%), whereby the nationalist courses being taken by the governments of Poland and Hungary are clearly reinforcing anti-EU attitudes. On the other hand, in some Eastern European accession countries, there is definitely political support for the EU. EU transfers to these countries may play a large role here; also, perhaps, the feeling of citizens of these countries that, in the long term, economic prosperity, reliable ‘catching-up’ processes and the rule of law can best be expected as an EU member country.

Low levels of support for the EU in Cyprus and Greece are obviously related to the Euro Crisis and the necessary austerity and reform policies—partly imposed by the Troika (composed of the International Monetary Fund (IMF), the European Central Bank (ECB), and the European Union)—which were required by these states.

These countries could not simply leave the Eurozone, even if they wished to do so. Rather they would have to leave the EU as well, which is a sensible provision. No country should be able to carelessly join the Eurozone and think that it can simply withdraw from the monetary

union again without much ado. Without clearly fulfilling the conditions for membership and a solid political will to continue that membership, joining the Euro area is not a sensible policy option. A monetary union is, in its nature, a long-term objective. It cannot be ruled out that countries such as Cyprus and Greece leave the EU in the medium term. Geopolitically, however, that would be problematic for both the EU and indeed the North Atlantic Treaty Organization (NATO).

That the, as yet, unresolved economic crisis in Greece led to an enormous anti-EU sentiment amongst the Greek populace is not something which should be recognized by the European Commission alone. Here, it would be sensible for certain leading EU member states to react. As long as Germany prevents a sensible compromise being agreed with the Tsipras government in Athens, this will not only prevent a solution from being found—at least in relation to a possible partial debt relief—for ideological reasons, but will in fact also feed into the emergence of an anti-EU majority in Greece. That is not in Germany's interest.

In the event of Brexit being completed, the EU would be confronted with new problems vis-à-vis the possible future courses of action open to the European Investment Bank (EIB). The EIB is backing large-scale projects, currently also in the crisis countries, and Brexit would mean a reduction in equity capital of circa 10%. The opponents of sensible rules in the Eurozone would certainly be given a huge boost, should growth-promoting infrastructure projects be cut back by the EIB. The summit of southern EU member states, which Prime Minister Tsipras organized in Athens in September 2016, indicates a possible fault line running through the Eurozone: Portugal, Malta, Italy, Greece, Cyprus, those countries who question the need for a fiscal rulebook in the Eurozone on one side—as if a meaningful event like a football match or an Olympic Games could be held in the absence of any rules. It would be sensible to keep the Eurobarometer figures in mind (Table 2.2):

In Germany, France, and the Netherlands, the dissatisfaction rate, at 29%, was above the EU average; in Belgium the figure was 31%, meaning that a broad level of Euroskepticism was perceptible in four of the EU founding member countries. The attention of the European Commission should have been grabbed by the numbers in the Eurobarometer from May 2016, particularly considering the

developments when comparing the figures to the results from the poll carried out the previous autumn: the negative attitudes in the EU28 had risen by 4%, in the UK the increase was 5%. On the other hand, there was only a 1% increase in positive attitudes in the UK, while in Austria there was a 9% rise in positive attitudes.

The Risk of an Endogenous EU Destabilization

As 51.9% of the voters in the British referendum voted in favor of a UK withdrawal from the EU, the Eurobarometer survey figures from spring 2016 are clearly broadly misleading in terms of the measurement of EU attitudes. Furthermore, if one had assumed that the “neutrals,” meaning the undecided voters, could in an actual referendum vote in the same proportionate ratio as the Positive and Negative groups, then the European Commission would have had to assume a Brexit majority of 36:31. One can also reinterpret the figures on negative EU attitudes based on the result of the British referendum on June 23, namely a 52% rejection of the EU in the UK, using the following methodology: by increasing the negative attitudes by a factor of 1.44 to get a truer negative than what is shown in the above Eurobarometer table (it can be ruled out that in a matter of only a few weeks the number of EU opponents rose from 36% to 52%). Assuming, on the basis of the UK’s negative attitude distortion, that the distortion factor for other EU countries is equally high—admittedly an over-simplification—then the EU28 Negative Attitude towards the EU would not be 27% (the Eurobarometer figure), but actually 39%.

The result of this simple, illustrative adjustment of the figures, would be a negative attitude towards the EU in Germany and France not of 29%, but actually of 42%, in Italy not 27% but rather 39%; in the Czech Republic of 39% and in Austria of 53%. On the basis of these ‘revised’ figures, it would be immediately apparent that with an EU disintegration dynamic, which would reduce the real economic benefits of integration and growth, respectively, the EU would rapidly enter an existential crisis: once the UK has left the EU, there could be prospects for further disintegration and since disintegration means that the

growth dynamics of the EU will decline there would be an endogenous anti-EU momentum in part of the EU27—in periods of lower economic growth the popular support for EU integration always has been lower than in periods of high growth.

The national politics of some EU countries could, within only a few years, lead to an X-EXIT and it would then be only a matter of less than a decade until the EU, as a European integration area, fractured completely. As a period of intensified nationalism would follow years of EU integration, economic crisis symptoms would be linked with political radicalization and soon also with massive conflicts in continental Europe. The non-binding British referendum does not mean the UK's immediate withdrawal from the EU, but it is presumed that Brexit will finally be implemented in 2019 and thus from 2019 there will be an increased risk of EU27 disintegration dynamics should the EU27 and the European Commission prove unable to prevent a disintegration dynamic and take decisive pro-EU integration measures. This will also require that pro-EU actors and representatives publicly engage themselves in a highly visible manner for sustainable EU integration and that the complicated EU system would be simplified, made more citizen-friendly and better understandable. One should also not overlook the growing right-wing populist movement that has emerged in Germany, France, and indeed other countries—with Germany facing the most dangerous dynamics, namely in the course of the refugee wave and Mrs. Merkel's refugee policy. The right-wing Alternative for Germany (known in Germany as the AfD) achieved about 4% in opinion polls in spring 2015 only to jump to two-digit numbers in regional elections in 2016 as a result of the uncontrolled massive refugee inflows for which Mrs. Merkel's refugee policy of early September 2015 was largely responsible—with no EU summit organized to tackle the issue (which would have been possible if Mrs. Merkel had urged the holding of an emergency summit; as had been so often been the case during the Greek crisis).

It is strange that the European Commission did not decide in early 2016—prior to the Brexit referendum—to organize a pro-EU information campaign on an EU-wide basis. While an EU campaign in the UK alone would have been strange, there was no reason for the

Commission not to launch a more general pan-EU information campaign (e.g., under the heading: Taking Stock of EU Benefits and Challenges—60 years after the Treaty of Rome).

The decisive letter from Prime Minister Cameron to the European Commission on November 15, 2015, in which he asked for special negotiations on the status of the UK within the EU was a signal that the referendum was soon to take place in the UK. On February 19, 2016, the EU's negotiations with the UK ended and Cameron clearly assumed that the results would be impressive enough for the British public to secure a pro-EU referendum result. Had the British Prime Minister also considered what the costs of leaving the EU and the benefits of remaining in the community actually are? He had certainly considered this question and the experts in the Treasury were eager to deliver a report on this—with some very clear findings and arguments in favor of remaining in the EU. The point is, however, that these findings were never adequately communicated to British households as will be shown. Mr. Cameron's negotiation results with the EU—obsolete in the case of a real Brexit—were as follows (HM Govt 2016a):

- The UK would not face the obligation to cooperate in the EU under its traditional mantra of “an ever closer union”—a wording found in the Treaty of Rome in 1956. To some extent, this revisionist position of Mr. Cameron is strange, since joining the EU in 1973 meant, of course, subscribing in some way to this historical motto regarding EU integration, while prospects for the twenty-first century—with ongoing US dominance, soon shared with China—will make closer European cooperation in many fields really useful. The stronger EU countries in the EU integration club are in economic terms, the easier it will be to maintain European national and regional identities. European diversity without EU cooperation will be quite difficult to defend, not least against the ever growing influence of China and Asia, respectively.
- The EU assured that the decisions of the Eurozone would not amount to a discrimination of interests of non-Eurozone EU member countries (here, the UK certainly felt some political support from Denmark—which also has an opt-out clause from monetary

union—as well as from Sweden and some Eastern European countries). The Eurozone has experienced serious problems in the Euro Crisis, a crisis that should have been anticipated by the European Commission, national governments, and economic experts (if it had been, it would indeed have largely been avoided—this author wrote about an upcoming crisis in Portugal, Spain, Greece, and Italy in the book manuscript *Transatlantische Bankenkrise/Transatlantic Banking Crisis* in October of 2008 as it seemed fairly obvious that the Banking Crisis was such a fundamental shock to investors' confidence that it would reinforce the flight into quality investments meaning that countries with high deficit–GDP ratios and high debt–GDP ratios (possibly in combination with high current account deficits and thus high foreign indebtedness) were bound to be in financial trouble soon unless they would drastically and credibly adopt a new fiscal policy stance).

- The EU agreed that improving international competitiveness is an important task and that the EU regulatory burden should be reduced; it is, however, not clear what the EU could really do—beyond leaner regulations in some fields—to improve international competitiveness, since the power to set national framework conditions for the business community and to finance innovation support schemes lies primarily with EU member countries themselves—not with the EU.
- The UK would get the right to exclude EU immigrants into the UK from full access to the British social welfare system for several years.

The latter condition is especially confusing since the UK has a strong economic net benefit from EU immigration as the Organisation for Economic Co-operation and Development (OECD) has pointed out in various publications. It is, however, an interesting clause in the negotiation package for all EU countries since it points to potential future changes that other EU countries may seek in order to restrict immigration pressures in a way that is compatible with the EU single market. It also points to a potential clause in a future EU–UK negotiation package with a focus on British conditions for EU access.

From a game theory perspective, Cameron's strategy to go for an EU referendum was founded upon two main motivations, namely to get a stronger bargaining position vis-à-vis the EU on one hand, and to obtain the ultimate voter signal that would help to defeat the Tory backbenchers with anti-EU sentiments who were becoming restless, and even defecting from the party, on the other. After the referendum results became clear on the morning of June 24, it was obvious that Cameron's strategy had totally failed.

Betting Odds and Contradictions Between Capital Markets and Democracy

It is clear that opinion polls prior to the referendum suggested a narrow outcome. At the same time, the implied voting probabilities of British betting companies pointed towards a clear Remain majority (Fig. 2.1). Capital markets also suggested during the two weeks prior to the referendum that the outcome expected by well-informed institutional investors was a majority vote for Remain. This is all a serious paradox and represents somewhat of a problem for democracy: had the British Pound strongly depreciated and stock market prices plunged, a majority of undecided voters would have voted in favor of Remain for fear of the negative consequences indicated by such capital market reactions. However, the overly optimistic view of capital markets, that there would be a majority for Remain and thus the conclusion not to take positions expecting a declining exchange rate of the Pound and declining stock market prices, encouraged a (large) majority of undecided voters to take the risk and follow the emotional anti-EU allure of Vote Leave/ the Brexiteers. Capital markets and major investors thus contributed in bringing about a self-destructing outcome.

Democratic results in a referendum are clearly influenced and biased by capital market dynamics in certain cases, and the UK referendum of 2016 is one such case. The best way to get a neutral capital market impact would be to ban capital market transactions for at least two weeks prior to the referendum date. Can capitalism and the British

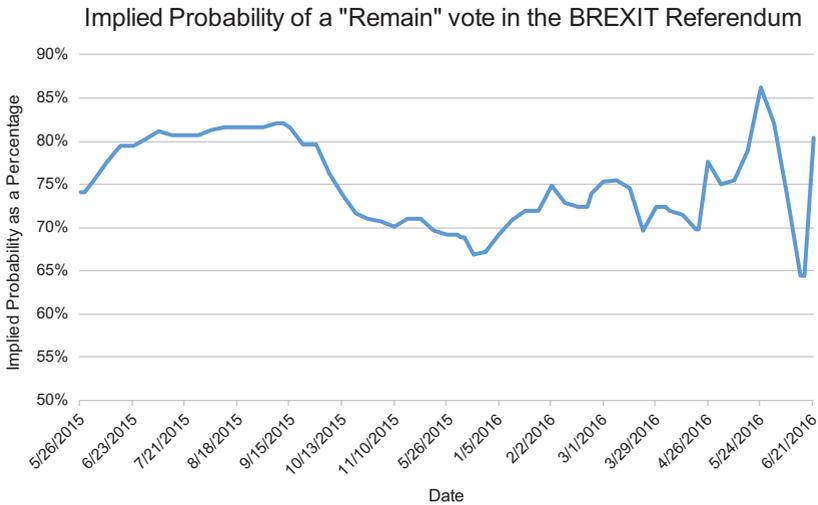


Fig. 2.1 British betting odds and implied probability of a vote to remain in the EU. *Source* Own calculations using data available at www.oddschecker.com

democracy—and the West as a whole—afford itself such a rational solution? There will be many in the business community who will say that this means lost business, and yes, it does. However, the effective capital market bias against a Brexit vote—remember: capital market signals discouraged the undecided voters to take Leave risks into consideration and thus caused an abnormally low share of undecided voters to vote for Remain—contributed to Brexit. The expected output loss, according to British government analysis (a Treasury study, published on April 18, 2016), is 3–10% and these costs are much higher than would be caused by closing down capital markets for two weeks. The alternative would possibly be for the UK not to rely on referendum decisions in future, but to expect Parliament—the traditionally strong actor in the British political system (as has been confirmed in the Supreme Court ruling of January 24, 2017)—to take up its responsibility and decide on politically critical decisions.

One may note that in the case that the capital markets had brought about a sufficiently strong devaluation of the Pound, there would likely have been a victory for the Remain side (a case of a self-fulfilling

prophecy). At the bottom line, this is an interesting theoretical point, but as regards the British referendum outcome, some other points, mainly related to the Cameron government's communication strategy, were even more important and indeed baffling as will be shown subsequently. It should be noted that the majority of 51.9% for Leave was not really strong, a swing of just 700,000 Leave voters to the Remain camp would have been sufficient for a pro-EU referendum outcome. This also points to the crucial role that swing voters have in all elections and it is clear that a good campaign has two key elements: firstly, the mobilization of traditional supporters, and secondly the influencing of undecided voters in a decisive way.

As regards the signals from betting firms, it seems obvious that major investors in the UK were also making bets and many investors in capital markets probably took the resulting betting odds as a signal to speculate in capital markets and the foreign exchange market in expectation of the Remain majority the betting odds, and markets, suggested. Exactly what a mess this interaction of capital markets and voters had actually produced in the UK could only be fully understood in the days after the referendum results had become clear—when capital market actors had to correct themselves. The wisdom of capital markets is not as strong as is usually emphasized in textbook models and the rare case of confusing interactions between capital market signals and voters' behavior in a referendum have not been researched in-depth so far. The critical question of linkages between democracy and capital markets is a broader one since national elections and capital market dynamics are also interrelated.

Some Perspectives

Good governance can only occur when the sentiments of the population over the course of time are fairly accurately assessed by government. The European Commission obviously had, on the basis of its less than sound Eurobarometer surveys which are carried out twice a year, no usable information basis and it would be well advised to clearly improve the methodological basis of its important Eurobarometer polls.

The Commission's polling results are, as a result of the weak methodology employed, capable of misleading political actors and the public. As long as the Commission bases its own communication and economic policies on Eurobarometer findings, communication and policy will not be particularly effective.

It raises the question of whether in the long term there should not be an attempt to create more positive support for the EU, by improving the construction of the EU itself: it must be more beneficial for both citizens and member states. Thus, the EU must increasingly focus on relevant policy areas, which should, based on the theory of fiscal federalism (Oates 1999, 2001), be transferred to the supranational layer—infrastructure, defense, and income distribution are three areas which are completely lacking in Brussels; instead of paying income transfers to relatively poor individual regions, the EU should, via the income tax system, participate directly in redistributive transfers. As long as the EU does not have its own independent tax-raising powers, it will always be dependent on member states for more than 90% of the financing side of its budget and thus lack visibility for the electorate. If one can realize efficiency gains in terms of the fields of competence and spending, respectively, in Brussels within the framework of an intelligent vertical division of powers, then one can reduce the entire tax burden—across all policy layers. A reduction of the average income tax rate by almost one percentage point should be possible in the longer term. The individual EU member states would consider above all power gains and political autonomy: a well-organized Neo-EU, which can ensure successful growth and stability, is also an advantage at the national and regional political levels.

On the contrary, governmental work at a national level during the years of the Euro Crisis (2010–2015) was certainly made more difficult as a result of instability and uncertainty at an EU level. Moreover, it should be considered that a successful, stable monetary union offers substantial economic benefits, assuming a world market share of the Euro in global reserves of 25%; this allows the possibility of annual “free” imports in the amount of 0.5% of GDP. If this is capitalized in the long term with an interest rate of 2.5%, the relevant present value is 20% of GDP. The Euro is, taking the savings in transaction costs into account, even more valuable in a functioning monetary union; however, a transfer to

a supranational fiscal policy with constitutional national limits on the deficit ratio is essential. This can only be achieved in the longer term. Brexit does, however, provide a reason to reconsider the costs and benefits of EU membership from an economic perspective. What developments were behind Brexit, what comes now for Great Britain, what EU reforms are required? The question of what the Brexit majority has created remains, as yet, unanswered: is the annoyance of a net annual contribution to the EU of £110/\$135 per capita in the UK so great and the 150,000 immigrants per year from EU members such a burden in a land of 65 million inhabitants? Hardly. It is clear that some EU regulations are an irritation to the economy and that the EU did not give the best impression of itself during the Euro Crisis, even less so during the refugee crisis. But in truth, Brexit was only partly about EU issues. Above all, the population in the UK wanted to show the political establishment in London the proverbial red card and clearly demonstrate the massive smoldering loss of confidence which has existed since the Banking Crisis to the ruling political circles. The man on the street in the UK will hardly follow the advice of government any longer. Too great is the disappointment over the terrible Banking Crisis of 2007–2009 with huge job and wealth losses, the subsequent increase in the state's budget deficit ratio plus the rise in debt ratio of almost 40%, and the doubling of tuition fees as a result of a revenue crisis in the state university sector. At the same time, the public was becoming aware of the often extravagant incomes of certain poorly performing top managers of some of the large banks; one top banker was even found to have been fare dodging for years while commuting by rail to work every day in London. The reputation of the British political elites, which created the wrong conditions for the financial markets and banks, respectively, has been massively impaired.

Where Did British EU Skepticism Come From?

If one considers that the votes in favor of leaving the EU came primarily from the elderly strata of society and those with a rather modest educational background, then one can draw the following conclusions from the Brexit vote in conjunction with the analysis of Curtice (2016):

- EU integration is endangered by the aging of societies, which seems at worst to encourage the emergence of neo-nationalism—or at best a nostalgic concept of national political autonomy, which in reality no longer exists in western European countries in the twenty-first century. With the rise of China and the ASEAN-countries, the European states are confronted with huge challenges, where China will emerge as a leading global power alongside the US. That a European country acting alone has good chances to represent its interests on the world stage in the twenty-first century is doubtful.
- EU integration is also endangered by a lack of education, which also makes one susceptible to cultural nationalism and a fear of immigration. One can also assume that in the context of the refugee crisis of 2015, a stronger interest on the part of the electorate in controlled immigration will emerge.
- Above all, a majority of those people who view EU integration as undermining British identity are Euroskeptic. A British study (Curtice 2016, Table 8, p. 14f.) before the Brexit referendum showed that amongst those who feel that the EU undermines Britain's distinctive identity, 93% of those who 'strongly agree' with that hypothesis are Euroskeptic, while 82% of those who 'agree' with the hypothesis are Euroskeptic. For those who 'strongly disagree,' the share of Europhiles was 68% (results reproduced here in Table 2.3). Thus, one can, with regard to the UK, see that before the Brexit vote the EU should have appealed more with the message to British voters to ensure them that the UK would still be welcome in the EU, even if did not participate in every EU integration initiative. Such a message was sorely lacking, and one could draw the conclusion that the aforementioned study from Curtice (2016) was unknown to both the European Council and the European Commission.

Table 2.4 presents some findings from a study by Curtice (2015, Table 2; see also Cleary/Simpson 2016) showing different attitudes to Brexit depending on highest level of education: those with no qualifications were the only group who expected that after Brexit the economy of the UK would be better outside of the EU: 33% was the respective share for this group, while 44% foresaw not much difference between

Table 2.3 Attitude towards the EU by level of cultural concern

	EU is undermining Britain's distinctive identity				
	% Strongly agree	% Agree	% Neither	% Disagree	% Strongly disagree
<i>(a) Withdraw v Continue</i>					
Withdraw	80	42	9	4	3
Continue	17	46	75	92	95
<i>Unweighted</i>	<i>198</i>	<i>350</i>	<i>216</i>	<i>242</i>	<i>65</i>
<i>sample size</i>					
<i>(b) Eurosceptic v Europhile</i>					
Eurosceptic	93	82	47	55	27
Europhile	6	17	43	42	68
<i>Unweighted</i>	<i>198</i>	<i>350</i>	<i>216</i>	<i>242</i>	<i>65</i>
<i>sample size</i>					

Source Curtice (2016, Table 8, p. 14)

the UK remaining in the EU and the UK leaving the EU; just 16% foresaw a worsening of the economy after Brexit.

In the group with basic educational qualification (i.e., O-Level or equivalent), 27% felt that one could expect an improvement in the UK economy after Brexit, with 36% expecting no difference. Even amongst those with the second highest educational attainment (A-Level or equivalent), there was a majority opinion that the Brexit would not damage the UK economically, with only 44% expecting a worsened situation. That is obviously a fundamental misjudgment, and this study from 2015 should have been a double incentive for the Cameron government to include in the information for households prior to the referendum the findings of the Treasury study of April 18, 2016, about a sharp drop in income. Here, one can see that insufficient economic information from the side of government in the event of a referendum would lead to a 'veil of ignorance' for many sections of the population. For those with higher educational attainment (Bachelor Degree), the share who foresaw an economic worsening as a result of Brexit was 65%, while 19% assumed that there would be no change; only 15% in this group expected that the British economic situation would improve. What is also interesting is the relative differences in relation to the question of whether the UK would have a greater influence on the world stage after leaving the EU: for those with no qualification, the share with a

Table 2.4 Attitudes on the referendum outcome based on level of qualification

Degree (%)	A level/Higher education below degree (%)	O Level or equivalent (%)	No qualifications (%)	All (%)
<i>If Britain were to leave the EU, Britain's economy would be ...</i>				
Better off	15	21	27	24
Not much different	19	30	36	31
Worse off	65	44	31	40
<i>If Britain were to leave the EU, immigration into Britain would be ...</i>				
Higher	6	9	8	9
Not much different	34	27	35	31
Lower	60	61	52	57
<i>If Britain were to leave the EU, Britain's influence in the world would be ...</i>				
More	11	15	15	17
Not much different	33	45	51	44
Less	56	37	30	36
<i>If Britain were to leave the EU, unemployment in Britain would be ...</i>				
Higher	36	19	20	25
Not much different	39	50	48	46
Lower	22	25	26	24
Unweighted base	260	293	280	1105

Source Curtice (2015, Table 2, p. 7)

positive view was 26%; for those with a degree it was 11%, and for this grouping, the share of those who saw the UK having less of an influence after Brexit was 56%. For those with no qualification, only 19% foresaw the UK having less influence globally. Put bluntly, one can say that nostalgic retirees and lower educated voters with a less than accurate world view dumped the UK, after almost 45 years of membership, out of the EU. That UKIP with their sloganeering played into the illusory viewpoint of the less educated and mobilized them as voters for Brexit is obvious. Finally, it is noteworthy that the subjective estimation of the share of immigrants in the UK amongst the British population was about three times as high as the actual share really is.

Critical questions are raised here about the benefits of referenda in the case of rather complicated issues. On the one hand, one can naturally regard referenda as the highest expression of democracy. On the other hand, considering the ‘state of ignorance’ in a Rawlsian sense—where one does not know his own actual future position in society—one could ask what kind of questions should be decided by referendum or whether, in a referendum, a minimum standard (e.g., a 60% majority or other qualified majority) which must be met for there to be a change in the status quo could be required, or whether there could be two-stage process with a popular consultation on an issue to begin and then, one year later, the actual decisive referendum could be held.

The Brexit decision does not cast British democracy in a particularly good light—the referendum was carried out in a formally correct manner; however, there was an absence of solid and timely information from government. As the issue of the referendum on EU membership was put on the agenda by Cameron as early as 2013, the poor preparations for the actual vote are all the more incomprehensible. As can be seen from the above, educational policy is obviously also integration policy, and a society with a high share of people with no educational qualifications in the electorate will lack the ability to engage in sustainable international integration. From this perspective, Germany, with its relatively low share of unskilled, is structurally-speaking a relatively integration-friendly EU member state.

The lessons for the UK which can be drawn from the results of the British surveys, but also for other EU countries in particular, are that

the European Union would be well advised not to undermine the sense of identity of citizens of EU member states through certain political actions and/or to create a broader feeling of insecurity and uncertainty. Uncontrolled and, for the purposes of integration, badly organized immigration thus belongs to the problematic issues to be considered here, along with the possible accession of Turkey to the EU.

It cannot be overlooked that part of the anti-EU sentiment in the UK can be explained on the basis of the bad impression which EU integration—including the Euro monetary union—created between the years 2010 and 2015. A sensible and credible rulebook for deficit policies is important; to date the European Commission has seemed reluctant to fully impose the rules of the Stability and Growth Pact; at the same time, the national constitutional deficit limits, or debt brakes, in the Eurozone countries are rather weak, although a relevant regulation would actually act to relieve pressure on the economic policies and raise the stability of the Euro. A deficit limit which is too restrictive, as is the case in Germany's Basic Law, is also questionable: a 0% cyclical deficit ratio for the individual states in Germany from 2019, and 0.35% for the Federal Republic itself since 2016 is too low, as a trend growth rate of 1.5% will result in a long-term debt ratio 23.3%. The insufficient implementation of EU rules on the limit of the deficit and debt ratios of EU member states creates a dangerous credibility problem in the Euro club: both within and to the outside world, where crucial principles of liability are also undermined. Reforms, particularly after Brexit, must give better incentives in the Eurozone for sound economic policy, while in the future the deficit ratio for countries with a B rating should be set at a lower limit than countries with an A rating: countries with at least an AA rating with regard to sovereign debt could automatically receive a grace period of three years to get the deficit ratio back under 3%. Countries with a rating of at least investment grade would have two years, and C-rated countries only one. That should incentivize countries to position themselves in the top credit rating classes and furthermore it is sensible that countries with a good debtor grading or top rating (AA or AAA) would receive the largest room to maneuver in terms of deficit policies which they have earned. President of the Bundesbank Jens Weidmann (Weidmann 2016) on the topic of Brexit

said in a speech in Munich on the June 1, 2016: “I completely agree with the President of the European Parliament, who wishes for a “closer and more unified European Union”.”

Wishful Thinking, Interests and Nationalism

When it comes to questions of EU integration, it is worth remembering that the EU has experienced a range of crises (Knipping 2004)—and it is often argued that successful solutions are found during those crises. This EU formula for success has initially been called into question by Brexit. Neither the European Commission nor the heads of state and government of the EU27, from whom Cameron negotiated concessions for his country just four months prior to the referendum, nor indeed the British government itself, recognized the seriousness of the situation in the UK and ultimately in the EU28. Since Brexit, every group and body which seeks less European integration or wants to leave the EU altogether feels reinvigorated and given a new purpose. Brexit has the effect of an amplifier for all nationalist groups, no matter how illusory their policy platform or manifesto may seem—they obviously have a level of appeal to many voters in crucial countries and it is possible that since the end of the Soviet Union a new historic tendency towards nationalism has emerged in the west and east of Europe; beginning with the reunification of Germany and a new Polish and Hungarian nationalism, as well as the rise of Marine Le Pen and her party the Front National in France and other populist movements in Finland, Denmark, the Netherlands, and Belgium, plus Italy and Spain (Catalonia in particular).

The economist Harry G. Johnson once alluded to the fact that nationalism gives people a form of quasi value-added, which can have the effect of a rise in income (Johnson 1967). Many people clearly have a psychological disposition towards obtaining some sort of personal value-added through a nationalistic attribution of identity; this usually also involves a differentiation from other nations and therefore nationalism is seldom capable of sustainable international cooperation, rather it leads to the emergence of conflict driven by rivalries. Nationalism

naturally brings a different type of value-added to that which, from an economic perspective, one can imagine as an EU member state, that is a politico-economic club benefit (according to Buchanan/Tullock 1962): together, each one can achieve his own goals better, whether in a cooperative or in a club. There is a membership contribution, which could be determined based on the self-interest of each of the members, which in turn can be affected by structural factors—such as the sectoral structure of the economy—or the size of a land or even the level of per capita income.

Club benefits, from the point of view of the member countries, rise to a certain level as a result of a rising number of member countries, as then one can more easily enforce interests globally. With the growing number of member countries, however, also grows the cost of consensus and organization. Thus, there is surely an optimal number of members, which one should not flippantly exceed. Otherwise, incentives would emerge for countries to withdraw from the club at some point. As a general rule, the first such withdrawal stimulates impulses in other countries to imitate the move. That alone already weakens the integration dynamic, and calls for an analysis of the net benefits of membership, where the benefits will be compared with the costs of membership (e.g., contribution payments). The EU functions on the basis of the assumption that a common external trade policy, a common agricultural policy—key term: a guarantee of supply—and a framework of competition and regulatory policies, deliver benefits for member states. In the case of the Eurozone, there is also the idea that a common central bank and common monetary policy, respectively, can bring economic benefits.

The consensus costs in a club such as the EU are a positive function of the difference in per capita income. This implies that economic convergence, here a harmonization of per capita incomes over the course of time, also has a political benefit—namely easier consensus building: countries with similar per capita incomes tend to have more similar interests than a group of countries with members which have highly varied per capita incomes. Economic convergence will thus always be an important goal for a sensible and rational integration area.

Of course there are also long-term differences in income between member countries; however, some sort of minimum convergence should

be sustainably reached. Thus, the Banking Crisis and the Euro Crisis did not have a conducive effect on EU integration, as they caused the differences in per capita income to actually grow for some time. For all the criticism of lacking fiscal policy coordination and inadequate national deficit ratio rules for the member states of the Eurozone, it should not be overlooked that the policies implemented did indeed achieve some institutional innovations—recently, the stabilization fund for the Eurozone—and some improvements in the rules; and also in the stabilization of the crisis countries. While there are a number of grounds why Greece can be regarded as an outlying special case, it cannot be ignored that reform policies were effective in most crisis countries and brought some success, so that after four years of crisis in the Eurozone, one can be optimistic once again. Naturally, that is not to say that the reforms required by the Eurozone and the EU have all already been dealt with.

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