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## **Britain's Point of No Return**

Europe's Democratic Dysfunction and the False Promise of Referenda

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To paraphrase Karl Marx, a specter is haunting Europe this week—the specter of disintegration. The United Kingdom's referendum on June 23, and the often-vitriolic campaign that has preceded it, has opened Pandora's box. If the British vote to leave the EU on Thursday, they will kill the illusion that the process of European integration is irreversible. It would further stir the slumbering beast of nationalism in Europe, which reawakened after the Great Recession and the euro crisis. And it will leave Europe's member states deeply divided over the future path of EU integration.

Undoubtedly, some euro federalists will scream that more Europe is the answer. Meanwhile, nationalists will want to see the whole project disintegrate. France will want to punish the United Kingdom, and Germany will be more cautious and will insist on letting the markets take care of it. Some member states will want to renegotiate their own rules of engagement with the EU, including Poland and the Czech Republic, which have agitated against the union's refugee policy, but also Denmark and Sweden, which are close trade partners of the United Kingdom and may want a similar deal as the British. The EU's favored response to most crises—muddling through—will no longer be an option. Even though, undoubtedly, that is what is most likely to happen.

Any outcome short of a decisive victory for the “remain” camp on Thursday will leave the United Kingdom deeply divided and its democracy badly bruised. On the face of it, a referendum on EU membership was not such a bad idea. When Prime Minister David Cameron promised to give the people a say during a much-heralded speech at Bloomberg headquarters in London in January 2013, popular support for European integration was at an all-time low across the continent. Opinion polls showed that the share of EU citizens who were satisfied with democracy in the EU was nearing record lows. A referendum, with a sharp and

sensible debate about the pros and cons of EU membership, could have dispelled decades of misinformation about Brussels spouted enthusiastically by the British tabloids. It would have forced the British establishment to make the positive case for European integration, just as it had done in 1975, when a referendum on Europe was won by a resounding ratio of two to one. Cameron thought such a debate could settle the Europe question for a generation.

And so Cameron rolled the dice. But it was a risky gamble [1]; the outcome would be irreversible, as a vote to leave will automatically trigger Article 50 of the EU Treaty of Lisbon and start the divorce process. A close vote to remain will likely see a challenge to Cameron's leadership and a renewed push to get an even better deal from Brussels. In January 2013, the stakes did not seem as high. In those days, Cameron never imagined that he could win a majority at the next general election, to be held in May 2015. At the time, a referendum on EU membership would be "a nice problem to have[2]."

## A NEW DEAL FOR BRITAIN

Cameron's first mistake was to think that he could fundamentally renegotiate [3] his country's 40-year relationship with the EU in just six months. By sheer force of will and use of abundant English charm, he promised to get the United Kingdom a "better deal" in Brussels and "reform Europe" while he was at it. Yet what Europe would be willing to give as the absolute maximum was always going to be an ocean apart from what Cameron's army of Euroskeptic back- and frontbenchers expected as the bare minimum. For his part, the moment Cameron organized his list of demands around four baskets—the end of the UK's commitment to ever-closer union, increased competitiveness, safeguards for those outside of the eurozone, and flexibility on EU immigration—he put the bar rather low. In turn, the concessions he got from his European partners were largely symbolic. Andrew Moravcsik, a professor of politics at Princeton University, aptly compared the Cameron renegotiation show in Brussels to Kabuki theater [4].

By his own logic, Cameron now had to campaign by defending his new deal and convincing a skeptical electorate that he had fought hard for the United Kingdom and won. But a week after he triumphantly announced his deal in Brussels in February 2016, it was all but forgotten. No one cared anymore whether migrants from the rest of the EU had to wait four or five years to receive in-work benefits, and what the legal consequences of being explicitly excluded from the EU's commitment to an ever closer union of its peoples really were. The referendum campaign quickly moved away from the technical and legal details, and was to be fought on the perceived merits of EU membership.

The second mistake Cameron made was to believe that he could strong-arm his own cabinet ministers into supporting his new deal and into loyally campaigning

for “remain.” Although 24 are indeed supporting their prime minister, six have openly campaigned for a Brexit, including party heavyweights Michael Gove, Iain Duncan Smith, Chris Grayling, and Boris Johnson. Conservative MPs are largely split on the issue, with only a slight majority in favor of “remain.” Most grassroots Tories heavily support “leave.” Meanwhile, the Labour Party under the hapless leadership of Jeremy Corbyn is mostly ambivalent and the pro-EU Liberal Democrats were all but wiped out in the last general election in May 2015, paying a heavy price for five years of acting as junior partner in Cameron’s coalition government.

## A COUNTRY TIRED OF EXPERTS

The difference between the 2016 and 1975 referendum campaigns could not be more striking. Back in the 1970s, Britain thought of itself as the sick man of Europe and the European Economic Community (EEC) as some sort of economic Holy Grail. A large majority of the United Kingdom’s political establishment—with the notable exception of the Labour Left—aggressively backed EEC membership. Margaret Thatcher, then leader of the opposition, campaigned in a now famous pro-Europe sweater with EEC member state flags stitched all over it. Today, by contrast, the United Kingdom fancies itself as shackled to the economic corpse of the eurozone, patting itself on the back for staying out of the single currency. Cameron and Chancellor of the Exchequer George Osborne, along with former Prime Ministers Gordon Brown and Sir John Major, now face the steep uphill battle of convincing the people of the merits of being a member of the EU. Yet having spent much of their careers railing against Brussels’ bureaucracy and its stifling culture of consensus, this was never going to be a comfortable exercise.

Rather than a great display of British democracy, the campaign has turned out to be an undignified mudslinging contest between the two unnatural camps, featuring outright lies, alarmist doomsayers, and blatant xenophobia. The right-wing tabloid *The Sun* ran the headline “Queen Backs Brexit” in March. It was based on rumors and vehemently repudiated by Buckingham Palace. “Leave” campaigners also misleadingly claimed that the United Kingdom paid 350 million pounds to Brussels every week. They promised to spend that money on the National Health Service in the case of Brexit. On the economy, it is hard to find an economist who does not think Brexit a bad idea, and reputable institutions such as the IMF, the OECD, the Bank of England, and HM Treasury have all lined up to warn against the dire economic consequences of leaving. Asked if he could name any economists who backed Britain’s exit from the EU, Justice Secretary Michael Gove simply observed that the “people in this country have had enough of experts.”

The Tory and Labour establishment did themselves a disservice by letting the “leave” side frame the debate. Since they have no love lost for the European

Union, they were forced to resort to mainly negative arguments about what would happen to the economy if Britain were to leave. A facts-based debate on the costs and benefits of being a full-fledged member of the common market or the net positive economic impact of EU migratory flows into the UK never materialized. The campaign has been fought along emotional lines dealing with questions of sovereignty and playing on the fears of immigration. “Let’s take our country back” and “control of our own borders” sound much more convincing as electoral slogans than “it’s complicated” and “while there are significant costs, we do get a lot out of Brussels too.”

## MAASTRICHT’S ORIGINAL SIN

But the United Kingdom and David Cameron are not solely to blame for Europe’s current predicament. The Treaty of Maastricht, signed in 1992, was a great leap forward for European integration. But in hindsight, it may have been a step too far for certain member states. Although the United Kingdom opted out of the single currency, Maastricht contained the deeply flawed blueprint of the euro. It designed a common currency with a common monetary policy, but without financial, fiscal, and political union. The Maastricht Treaty signified a break from the American-led postwar consensus of “embedded liberalism”—when sovereign nation states agreed to move in a broadly liberalizing direction, but were careful to keep vast economic policy discretion to cope with hard times. Maastricht created the Europe we know today, which is much more overtly political, has vastly expanded its body of EU legislation that member states need to implement, and spawned a huge bureaucracy to oversee the rules of the game.

Boris Johnson is not wrong when he says that today’s EU is hardly recognizable from the economic club of the 1970s. Reforming such a giant beast can only be done through a hard slog of incremental change. No wonder leaving seems like the easy way out. In many ways, the writing was already on the wall in the early 1990s. Although Major carefully negotiated various opt-outs to protect British sovereignty, many British Conservatives were always suspicious of Maastricht. The birth of the anti-EU UK Independence Party (UKIP) in the early 1990s is a direct consequence of Europe’s leap in the dark. Furthermore, the referendum in France in 1992 on Maastricht had only the tiniest of margins (“le petit oui”), while the Danes actually rejected the treaty and needed to renegotiate their own formal opt-outs before eventually signing on. At the time, European elites dismissed the worrisome results of these popular referenda as small annoying obstacles to their vision of a common currency and, eventually, a federal Europe.

After leaving the European Exchange Rate Mechanism (ERM) in September 1992, Britain saw its longest economic expansion in history, with its economic growth rates outpacing those of the eurozone by significant margins. Two decades later, the euro crisis that followed the global financial crisis further laid bare the institutional shortcomings of the single currency. The only way forward

for Europe was to integrate even more, starting with the creation of a banking union, and eventually followed by closer fiscal and political union. Although Britain wants the euro to be a success and understands that this means closer cooperation among eurozone member states, it never intends to actually join the euro. But the eurozone will gradually take over the EU in institutional importance, which will have significant consequences for the “euro-outs” such as the United Kingdom, Denmark, and Sweden. They, at some point, would face the painful choice between joining the euro and leaving altogether. It is just that no one expected this choice to come so soon in the case of the United Kingdom.

## LITTLE ENGLAND AND EVER-LOOSER EUROPE

We already know that the United Kingdom is deeply divided on the question of Europe. Although more than 60 percent back the “remain” camp in cosmopolitan London and the Scottish Highlands in the North, that figure is reversed in many English counties in the south, southeast, and the Midlands. Young and educated people overwhelmingly favor “In,” while older and less-educated people heavily lean toward “Out.” In Northern Ireland, the old schism between pro-Irish Republicans and pro-British Unionists could be revived. The open border between Ireland and the United Kingdom in Northern Ireland was a key piece of the puzzle of the peace process in the late 1990s, as was EU membership. A close vote to remain, or an outright vote to leave, would reignite those old rifts. Nicola Sturgeon’s Scottish National Party will feel emboldened to call for another vote on independence from the United Kingdom, which it may win this time around. Tensions could also flare up once again in Belfast and the rest of Ulster. And Wales will rethink whether it wants to continue to play second fiddle to the English.

Rather than “making Great Britain great again,” to borrow Donald Trump’s slogan, a vote to leave may result in a “Little England” that finds itself at the back of the queue as it tries to negotiate global trade deals with China, India, and the United States. Even if the vote results in a narrow win for “remain,” it is hard to see how Cameron can continue on as prime minister as if nothing happened. He already leads a party on the brink of civil war. The campaign has seen a tremendous amount of Tory-on-Tory crime, a lot of it deeply personal. In the event of a close vote for “remain,” there is likely to be a party revolt and a leadership challenge this summer. Although Boris Johnson is not guaranteed to win outright against either Cameron or Osborne, a more Euroskeptic voice of the remain camp, such as Home Secretary Theresa May, could emerge as the new consensus leader. She would then have the difficult task of getting an even better deal for her country in Brussels. One thing is certain: the issue of Britain’s relationship with Europe is unlikely to be settled by Friday.

Outside of the United Kingdom, the fallout of the Brexit campaign can already be felt in Brussels and other European capitals. European Council President Donald

Tusk tweeted that, “whatever the vote is, we must take a long hard look on the future of the Union [5].”

European Commission President Jean-Claude Juncker, one of the last euro federalists left standing in Brussels, warned that British “deserters” should not expect any favors from Europe. He also bravely stated that a Brexit would not change the fundamental nature of the process of European integration [6]. Even Juncker must know that that is at best naive.

Although European leaders are likely to put on a brave face this Friday, they will all know deep down that something fundamental has changed. Pretending that the Brexit campaign was just a bump on the road toward ever-closer union will no longer work. There is likely to be a battle between Tusk’s council, which will want to have a discussion on a division of labor between the EU and its member states when it comes to various policies, and Juncker’s commission, which will claim more powers for itself to make the EU work more efficiently.

The received wisdom that economic integration is easy but political integration is hard may no longer be true today. Clearly, monetary integration as we know it has created winners and losers. The euro crisis has pitted northern creditors against southern debtors and has seen an evaporation of European solidarity. The lack of solidarity has created all kinds of institutional and democratic dysfunction in the European Union. The lack of trust that is the result of the bitter years of financial and debt crises has made it very hard for Europe to craft a common response toward immigration and the threat of terrorism. The low-hanging fruit and mutual benefits of trade integration have long been taken for granted; making monetary union work will now be a lot harder.

Assuming “remain” scrapes together a narrow victory on Thursday—as most polls now seem to be saying, to the delight of the financial markets—maybe Europe should take this opportunity to start thinking hard about which things it really wants to do together and which things are better left to the member states to manage on their own. Europe’s security interests vis-à-vis the Middle East and the wider world today are more aligned than ever. It also makes sense to have closer cooperation on terrorism and refugees. They may even revive the discussion of a common European army and defense policy. But certain things remain too central and too sensitive to be left to the EU, including labor markets, social security, and some levels of discretion in fiscal policy. Finding the Goldilocks equilibrium between EU rules and national discretion will be the difficult task ahead. Let’s hope Europe’s leaders are up to it.

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