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WHAT IF...? THE CONSEQUENCES OF BREXIT

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With the British referendum only a few months away and opinion polls pointing to an uncertain outcome, the key question of what would happen if the UK left the EU remains largely unanswered. All kinds of estimates have been kicking around. Some have said 3 million British jobs would be lost if the UK were to leave the EU. Some others have suggested that Brexit would make the UK better off by 10% of its GDP.

However, the reality would hardly be that black and white. Last year, Open Europe published its own assessment of the economic impact of the UK leaving the EU. Our study showed that, outside the EU, the UK could see a permanent loss to its GDP of 2.2% by 2030 under a worst-case scenario – where Britain fails to strike any trade deal with the rest of the EU and does not pursue a free trade agenda. Alternatively, it could see a permanent GDP gain of 1.6% by 2030 under a best-case scenario – where the UK opens up to trade with the EU and the rest of the world, and pursues very ambitious deregulation.

These are both outliers, however. The more realistic estimates range is from a 0.8% permanent loss to a 0.6% permanent gain. So what do these numbers tell us? Well, first of all, the UK would definitely survive outside the EU. Second, given how finely balanced these economic

estimates are, the outcome of the British referendum may ultimately be determined by unquantifiable considerations – such as voters' desire to win back the lost sovereignty from Brussels. Third, the key to the UK's future economic prosperity would not be Brexit itself – but what Britain chooses to do *after* Brexit.

Given the characteristics of its economy, the UK would only thrive outside the EU if it were prepared to fully embrace free trade, keep a liberal approach to labour migration, and pursue wide-ranging deregulation. However, such an agenda would likely meet with domestic resistance. A sizeable chunk of Brexit supporters oppose free movement of workers and are sceptical of trade liberalisation. Conversely, should the UK turn into an inward-looking economy, it would be more likely to struggle and could end up worse off after Brexit. It is also worth bearing in mind that these are medium to long term scenarios for the UK economy. In the short term, there would undoubtedly be some uncertainty – the effect of which is very hard to predict.

In light of all this, much would also depend on what shape the relationship between the UK and the rest of the EU would take after Brexit. It would be in the economic interests of both sides to strike a deal. However, such cold hard logic does not always prevail in negotiations – par-

ticularly in the short term. The other EU member states could feel disappointed, especially if they felt that they had made a genuine effort to find a solution to British concerns during David Cameron's renegotiation. Furthermore, some EU countries could be inclined to, if not 'punish' the UK, at least make sure that it does not get away with too good a deal after Brexit – essentially due to fears that others may be encouraged to follow London's example and leave the EU.

This would likely fade over time, but it raises a more difficult question: what relationship would the UK seek with the EU and what would the EU be willing to give? None of the existing models (think Norway or Switzerland) offer the right balance between access to the single market and control over rules and regulations which the UK is seeking. In fact, it will be tricky to find a model that does – not least because there are no precedents for full market access for financial services. This would likely be a sticking point for both sides in the post-Brexit negotiations.

Finally, what would Brexit mean for the rest of the EU? Contrary to what some have suggested, it would not mark the beginning of the end of the European project. Nor would it suddenly stop cooperation between the UK and its European partners. That said, however, the EU would lose a strong voice in favour of free trade and economic liberalism, a large net contributor to the EU budget, and one of its two military powers (along with France).

As regards Italy more specifically, Brexit would mean losing a key ally in the push for a slimmed-down, less bureaucratic and more accountable EU – and, more importantly, an ally that actually wants to see fundamental reform to the structure of the EU. It would also mean being left alone in the room with France and Germany running the show. Hence, it is no surprise that Matteo Renzi has been among the most helpful EU leaders throughout Cameron's renegotiation. We will know fairly soon whether his effort will pay off.