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### The Debate Over 'Brexit'

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#### Introduction

For decades, the United Kingdom has had an ambivalent and sometimes contentious relationship with the European Union. London has kept its distance from Brussels' authority by negotiating opt-outs from some of the EU's central policies, including the common euro currency and the border-free Schengen area. Even still, the EU's faltering response to recent crises has fueled a renewed euroskepticism. Advocates for a British exit, or "Brexit," from the union argue that by reclaiming its national sovereignty, the UK can better manage immigration, free itself from onerous regulations, and spark more dynamic growth.

Leaving the EU would carry major risks. The UK would, among other things, face the possibility of losing preferential access to its largest trading partner and the disruption of its large financial sector. Meanwhile, a Brexit could accelerate nationalist movements across the continent, from Scotland to Hungary, with unpredictable consequences for the European project.

#### What is the history of the UK's membership in the EU?

The UK remained aloof from the continent's first postwar efforts toward integration, the [European Coal and Steel Community \(ECSC\)](#) and the the [European Economic Community \(EEC\)](#), formed in the hopes of avoiding another devastating war. "We did not enter the EU with the same political imperatives [as France and Germany]" Robin Niblett, head of the think tank Chatham House, [has argued](#). "We had not been invaded, we did not lose the war, and we have historical connections to all sorts of other parts of the world from our empire and commonwealth."

The UK didn't [join the EEC](#) until 1973. The British people approved membership in a 1975 referendum, but suspicion of political union with the rest of Europe remained strong. Critics argued that the European project was already moving beyond mere economic integration and toward a European "[superstate](#)."

As integration deepened throughout the 1980s and 1990s, the UK's leaders pushed for opt-outs. The UK didn't join the single currency or the border-free [Schengen area](#), and it negotiated a reduced budget contribution. Prime Minister Margaret Thatcher declared in 1988 that "we have not successfully rolled back the frontiers of the state in Britain only to see them reimposed at a European level."

#### Why does Prime Minister David Cameron want to change the terms of membership?

Many conservatives never reconciled with membership in the EU, and discontent has risen in particular over immigration. The issue of migration from within the EU is fraught, as the UK is required to accept the free movement of EU citizens. Economic migration from Eastern Europe spiked after the [EU expansions of 2004 and 2007](#) (PDF), pushing net migration to over 300,000 people a year by 2015. Conservative (or Tory) Prime Minister Cameron called the situation [unsustainable](#): "It was never envisaged that free movement would trigger quite such vast numbers of people moving across our continent," he said in 2015. Drawing on this anger, in 2014, the anti-EU UK Independence Party (UKIP) [surged to victory](#) in European parliamentary elections with an anti-immigration platform.

The wave of non-EU asylum seekers involved in the continent's [escalating migration crisis](#) has also driven tensions. The UK is exempt from the EU's [2015 plans to resettle](#) hundreds of thousands of migrants from the Middle East and Africa, thanks to [opt-outs](#) from EU immigration policy. But for euroskeptics, the EU's faltering response has highlighted its dysfunction while UK policymakers have [bristled at suggestions](#) that EU asylum policy might be altered to make it harder to deport migrants to other EU countries. (Under the [current system](#), non-EU asylum seekers are supposed to remain in the first EU country they enter.)

*"It was never envisaged that free movement would trigger quite such vast numbers of people moving across our continent." —British Prime Minister David Cameron*

The [eurozone crisis](#) also created strains after the EU proposed an unprecedented "fiscal compact" to coordinate budget policy. In 2012, Cameron [rejected the idea](#) as harmful to the UK financial sector, and chafed at the possibility of an additional treaty change.

In a [2013 speech](#), Cameron attacked the flaws in the eurozone and what he called the EU's excessive bureaucracy and lack of democratic accountability. He also promised to hold a referendum on the UK's EU membership if his Tory party won the 2015 elections, which it [subsequently did](#).

In November 2015, Cameron [announced](#) that before the referendum, he would seek EU reform in four major areas: national sovereignty, immigration policy, financial and economic regulation, and competitiveness. In February 2016, EU leaders agreed to a [number of changes](#), including protections for non-euro currencies within the EU, new limits on migrant benefits, a commitment to reducing EU regulation, and official recognition that the push for "ever closer union" does not apply to the UK.

With these reforms, Cameron hoped to quell the country's euroskepticism, but the specter of mass migration, combined with several major European terrorist attacks, gave the pro-Leave camp [new ammunition](#). "What he didn't bargain for was that the migration crisis would get very bad," says CFR Senior Fellow [Sebastian Mallaby](#). "The referendum is a lot riskier than he expected."

### **What is on the ballot and what does it mean?**

In the referendum set for June 23, 2016, voters in the UK will make a choice on the following [question](#): "Should the United Kingdom remain a member of the European Union or leave the European Union?" The electoral commission [will designate](#) two official campaign organizations for each side, and they will receive public election funds. As the official campaigns prepared to kick off, [polling found](#) the two sides evenly matched.

While the left largely supports remaining in the EU, the Leave camp includes a [wide swath of anti-establishment ideologies](#), from disaffected Labourites to UKIP on the far right. Meanwhile, the referendum has deeply split Britain's mainstream conservatives. Cameron has staked his political future on the Remain position, but [about half](#) of his Tory party, including several of his [cabinet ministers](#), support Leave. High-profile Tory defectors include Mayor of London Boris Johnson, former party leader Iain Duncan Smith, Justice Minister Michael Gove, and Employment Minister Priti Patel.

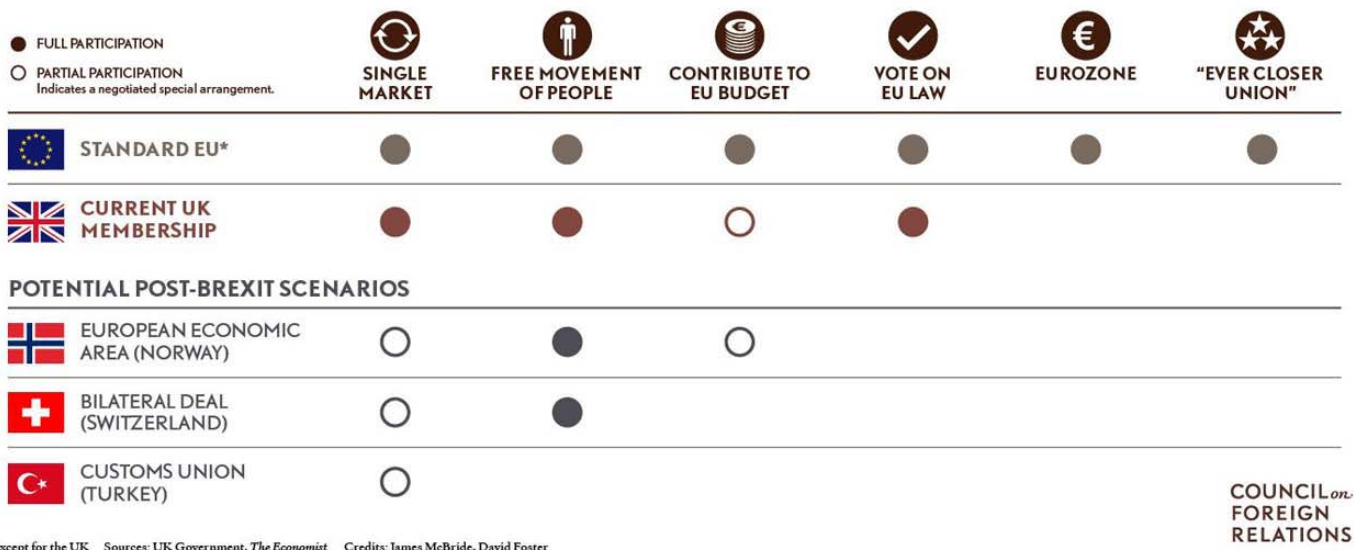
### **What happens if the British people vote "Leave"?**

The UK's situation would be unprecedented: No full member of the EU has ever left. (Greenland, a territory of Denmark, [left in 1982](#).)

Under the 2009 [Lisbon Treaty](#), the UK would have a two-year period to negotiate its withdrawal. These negotiations would be extremely complex. The UK would need to determine [numerous transitional procedures](#) (PDF) for disentangling itself from EU regulations, settling the status of the millions of UK citizens residing in the EU, and deciding the future of UK-EU security cooperation. The final withdrawal deal must be approved by a supermajority of EU countries, as well as by the European Parliament.

## How Could the UK's Relationship With the EU Change?

The UK already opts out from parts of the EU. If it leaves, its future could look like Norway, Switzerland, or Turkey, nonmembers with partial participation in the EU.



Separately but simultaneously, the UK would need to negotiate the terms of its future association with the EU. It's unclear what such a relationship would look like, but several non-EU countries [offer potential models](#) (PDF). Norway, for instance, is a part of the [European Economic Area \(EEA\)](#), which gives it partial access to the [Single Market](#) in goods and services. However, it has no say in making EU law even though it has to contribute to the EU budget and abide by EU regulations.

Switzerland is not part of the EEA, but it has partial access to the Single Market through a web of bilateral agreements—though not for services, which are almost 80 percent of the UK economy. Both Norway and Switzerland must also accept the free movement of people from anywhere in the EU, one of the UK's primary complaints. Meanwhile, Turkey has only a customs union, meaning a free market of goods but not services.

If negotiations fail to produce some form of special arrangement or EU-UK trade deal, UK exports would be subject to the EU [external tariff](#). The UK would be shut out of any EU-U.S. free-trade deal (known as [TTIP](#)) and would also need to renegotiate trade access with the fifty-three countries with which the EU currently has [trade agreements](#).

### What are the arguments for leaving the EU?

Reclaiming sovereignty is at the forefront. Pro-Leave supporters say European institutions have [changed beyond recognition](#) since 1973, and they accuse the EU of becoming a suffocating bureaucracy with ever-expanding regulations. "Laws which govern citizens in this country are decided by politicians from other nations who we never elected and can't throw out," [argues](#) Justice Minister Michael Gove.

Immigration is a [leading complaint](#). The number of EU migrants in the UK [nearly tripled](#) (PDF) between 2004 and 2015, from about one million to over three million, almost totally due to an influx of citizens from new members including Poland, Bulgaria, and Romania.

At the same time, terror attacks in Paris and Brussels involving EU citizens [raise fears](#) that the free movement of people leaves the UK vulnerable. With over three thousand EU nationals having traveled to Syria to fight with the self-proclaimed Islamic State, the former head of UK intelligence, Richard Dearlove, argues that controlling immigration would be the [primary security benefit](#) of a Brexit. (On the contrary, critics say Brexit would [hurt intelligence cooperation](#).)

*Terror attacks in Paris and Brussels involving EU citizens raise fears that the free movement of people leaves the UK vulnerable.*

The immigration issue powerfully combines anxieties over identity, economic security, and terrorism, says [Matthew Goodwin](#), an expert on British politics at the University of Kent. "The referendum is as much about immigration as it is about Britain's relationship with Europe," he says.

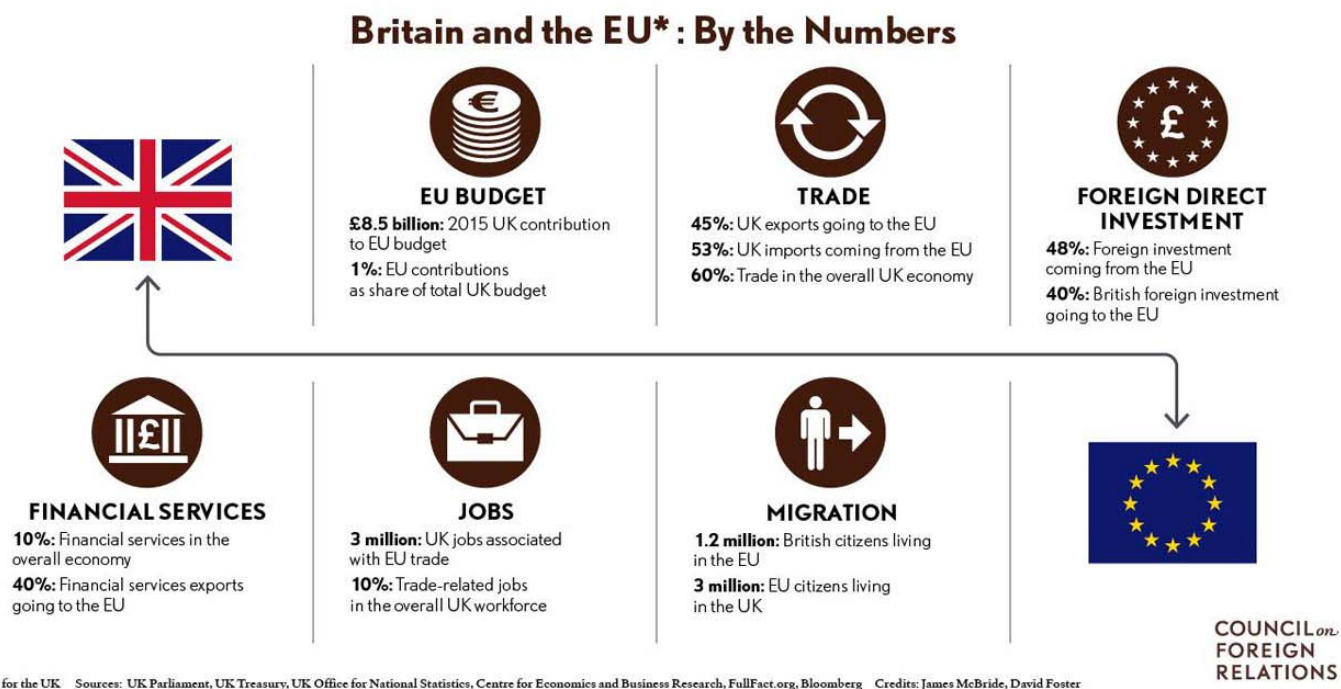
For some analysts, European institutions are ill-equipped to address the economic challenges of the modern world. Economist Roger Bootle, author of [The Trouble With Europe](#), argues that the EU's focus on "harmonization"—the continent-wide standardization of everything from labor regulations to the size of olive oil containers—threatens Europe with persistent low growth and high unemployment. However, the UK has a [much more flexible labor market](#) than the rest of the EU, likely one reason it is economically outperforming the continent.

Leaving would spark economic dynamism, according to Dominic Cummings, director of the [Vote Leave](#) campaign. The EU is "extraordinarily opaque, extraordinarily slow, extraordinarily bureaucratic," he [says](#). Vote Leave believes that without that burden, the UK could reduce regulation, improve competitiveness, and forge trade deals with fast-growing emerging economies. To Cummings, the reforms Cameron negotiated are [trivial](#), leaving the UK no choice but to eject from a dysfunctional union.

### How does the UK benefit from membership, and what are the risks of leaving?

The UK is highly integrated with the rest of the EU in terms of trade, investment, migration, and financial services (see graphic). The pro-Remain side cautions against risking that relationship: Cameron [warns](#) about a "leap into the dark" while Finance Minister George Osborne foresees a [convulsive shock](#).

For Adam Posen, president of the Peterson Institute for International Economics and former voting member of the Bank of England, the pro-Brexit economic arguments are a "fantasy." He says [productivity growth](#) (PDF) has been lower in the UK than in Germany and Spain, which are subject to more EU regulation, and that immigration drives growth. He also argues that belonging to the EU allows the UK to "punch above its weight" in trade since the larger bloc can negotiate more favorable market access deals. Other U.S. observers [have warned](#) that a Brexit could damage the UK's special relationship with the United States.



Much depends on the post-Brexit relationship with the EU. As the pro-Remain website InFacts.org [argues](#), the most important factor is barrier-free access to the Single Market, with its more than 500 million consumers and over \$18 trillion worth of GDP. Without it, trade would suffer and foreign investors could pull out of major industries like the UK's [thriving automotive sector](#).

Particularly hard hit, argues InFacts founder Hugo Dixon, would be [financial services](#). They currently enjoy ["passporting"](#), meaning UK-based financial institutions can operate freely anywhere in the EU. If that were to be lost, many firms would likely move offices—and thus, jobs—out of the UK to elsewhere in Europe.

What's more, Dixon writes, the alternatives come with few of the benefits and most of the costs of the UK's current position. The UK would lose its influence within the EU, and it would still have to accept most EU regulations, including free movement of people, if it hoped to retain access to the Single Market.

### How could a "Leave" vote affect the rest of Europe?

The most immediate consequence could be the breakup of the UK itself. Support for the EU remains strong in Scotland, which held an [independence referendum](#) in 2014. Though it failed, observers worry that a Brexit would give Scotland's governing nationalist party an excuse to try again. "[A leave vote] would certainly underscore the fragile constitutional makeup of the United Kingdom," says the University of Kent's Goodwin.

Ireland, too, could face a [difficult dilemma](#), as a country strongly committed to the EU but with an economy tightly intertwined with the UK. Ireland's government has [also warned](#) that a Brexit could upend Northern Ireland's peace settlement.

*"The younger generation of Italians, Portuguese, and Greeks associate membership of the eurozone, and by extension the European Union, with a terrible depression." –CFR Senior Fellow Sebastian Mallaby*

Elsewhere, Brexit could embolden euroskeptics by providing a "template" for leaving, says CFR's Mallaby. "The younger generation of Italians, Portuguese, and Greeks associate membership of the eurozone, and by extension the European Union, with a terrible depression," he says. That has translated into electoral gains for anti-EU parties—including France's [Front National](#), Germany's [Alternative für Deutschland](#), and Hungary's [Jobbik](#). Polling now [finds](#) that a majority of French citizens want their own EU referendum.

The ultimate fear [around the continent](#) is that a Brexit—especially if the UK economy performs well in the aftermath—could unravel the rest of the EU. Even barring that, a Brexit would be a heavy blow for a union that has struggled to maintain a united front on [sanctions against Russia](#) and the [unprecedented wave](#) of migrants. And in the wake of 2015 terror attacks in Paris, as France invoked the EU's [mutual defense clause](#) for the first time, a Brexit threatens to end Europe's hopes for a truly [common security and defense policy](#) once and for all.

## Additional Resources

This [selection from the \*Financial Times\*' archives](#) traces the history of the UK's often contentious relationship with the European Union.

Prime Minister David Cameron lays out his vision for EU reform in [this 2013 address at Bloomberg's headquarters](#).

This [BBC report](#) compares Cameron's reform promises to what he actually achieved in negotiations with the EU.

CFR Senior Fellow Sebastian Mallaby argues that Cameron is being pressured by extremists in his own party in [this \*Washington Post\* op-ed](#).

Cameron's reforms were [little more than symbolic tweaks](#) to the status quo, but leaving will not make the UK better off, argue R. Daniel Kelemen and Matthias Matthijs in *Foreign Affairs*.

All of the alternatives to UK membership in the EU come with considerable costs as well as benefits, explains this [UK government analysis \(PDF\)](#).

CFR President Richard N. Haass argues that a Brexit would strain ties between the UK and the United States and weaken Europe in this [Project Syndicate op-ed](#).

This [Bloomberg Intelligence Brief](#) examines the potential impact of a Brexit on migration, trade, capital flight, and financial services.

Multinational law firm DLA Piper analyzes the implications of a Brexit on the UK legal and regulatory system, as well as the financial services sector, in [this report](#).

## More on this topic from CFR

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