

Why Europe needs Britain

The UK deserves its special treatment

by Marcello Minenna and Edoardo Reviglio in Rome

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The debate over UK membership of the European Union is psychologically complex. Some observers claim that EU support from the City and endorsement from President Barack Obama – who arrived in London yesterday and meets Queen Elizabeth today – may turn into a boomerang. The message backing British adhesion from [former US treasury secretaries](#) could have a similar effect.

By contrast, ‘leave’ campaigners brandish short-lived but very effective slogans, digging deeply into the national psyche and combining diverse views and ideologies, from nationalists to ultra-liberals.

Britain has been discussing leaving the EU for over 40 years: the first referendum was in 1975. At the time, the protection of domestic industry against continental deregulation was a significant issue for those wishing to depart. Today, the roles are reversed. Neo-liberals support ‘Brexit’ and they are stronger than back then.

Yet the facts are clear. The UK immensely enriches the Union. The British bring about a useful equilibrium, offsetting corporatist tendencies embedded in Germany and Italy. They provide a contribution based on pragmatism and empiricism, counterbalancing France’s sometimes excessive rationalism.

In the rest of Europe, Brexit would further impede the (already deadlocked) integration process, with the risk of a dangerous domino effect.

Europe without the UK would simply not be the Europe we need. Especially now, when dangerous and uncontrolled forces are shaking world politics and with the global economy again under pressure.

We hope Brexit will not happen, yet we cannot be sure. After the 22 March terrorist attacks in Brussels, there was no panic in financial markets. Major economic uncertainties were already embedded in the price of assets.

However, assets held to be negatively affected by a British exit fell in price. Many observers saw the Brussels authorities’ inability to prevent an atrocity in the EU’s heartland as supporting the ‘leave’ campaign.

Sterling has been on a bearish path for more than four months, down 10% against the euro, 15% against the yen and 7% against the dollar. The currency’s volatility has increased over various maturities by 3-5%. Some economists believe that, if Brexit occurs, the pound would fall to parity against the euro.

The financial market reaction reflects poll findings that about half of British citizens appear to back EU exit.

This is, in some ways, difficult to explain. At first glance, Brexit would not give the UK many advantages. Britain is not part of a messy and complicated euro area. It has a flexible exchange rate and an independent monetary policy. It is outside the Schengen agreement, so it can exert tougher border controls than other European countries.

In addition, the British would leave the EU, but not the European single market, to which the UK should remain largely compliant.

On the other hand, in view of the large UK current account deficit (5% of GDP), a post-Brexit sterling devaluation could prove beneficial to boosting British exports.

The effects on the financial landscape are difficult to assess. Some believe that speculative attacks against sterling would reduce foreign investment and lower the City’s role as a world financial centre. Others say London’s financial clout could actually increase, citing important integration already under way with other major stock markets (notably Frankfurt and Milan).

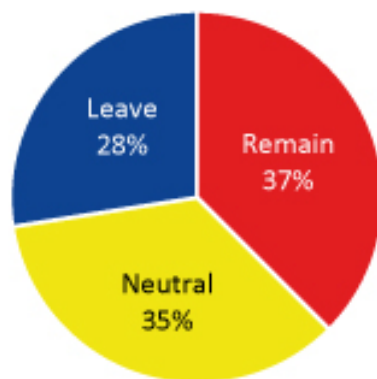
Beyond these arguments, Europe irrefutably needs the Brits. We Europeans outside the UK have to do our best to convince them to stay in. The UK deserves its special treatment within the EU. We should all be ready to grant this and ensure that it endures.

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