

# LSE Commission on the Future of Britain in Europe

OVERVIEW AND SUMMARY OF REPORTS



## Foreword

To assess the implications of a vote for Britain to leave or remain in the European Union, the LSE's European Institute established the 'LSE Commission on the Future of Britain in Europe'. Underlying the Commission's work was the broad issue of EU reform, both in the sense of improving EU governance and of achieving a better relationship between the UK and the rest of Europe. The issues and implications are explored in the summaries presented in this overview.

The approach of the LSE Commission was to convene a series of hearings, each of which brought together a broad cross-section of experts, practitioners, politicians, and representatives of business, trade unions and other social bodies. There was, therefore, a wide range of viewpoints on each subject under discussion. Participants came from the UK, the rest of Europe, and beyond. Full reports analysing the evidence presented at each hearing – eleven in all – have been produced and, collectively, these reports and this overview constitute the output of the Commission.

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For each topic an academic convenor from LSE provided a background note, invited a range of participants, acted as the moderator of the discussion and took responsibility for producing a concise report, drawing on what was said. In most cases, initial presentations were made by external experts to launch the discussion, but the emphasis was always on free and open exchange of views. The one exception to this approach was for the economics theme where, instead, the findings are based on the deliberations of a group of economists, mainly from within LSE, who scrutinised a range of reports and studies and sought to arrive at a verdict on what they reveal about the likely economic effects of Brexit.

The LSE commission is grateful to all those who participated and to the past and present PhD students who assisted the convenors, both in facilitating the panels and in drawing-up the reports on them. Marion Osborne provided invaluable administrative support and David Spence helped enormously in the drafting and editing of the reports. As always, LSE's Design Unit did sterling work and we particularly thank Neil Capps-Jenner for his timely work on this report. For each panel, a full report is freely available to download from the web-site:

**[www.lse.ac.uk/europeanInstitute/LSE-Commission/LSE-Commission-on-the-Future-of-Britain-in-Europe.aspx](http://www.lse.ac.uk/europeanInstitute/LSE-Commission/LSE-Commission-on-the-Future-of-Britain-in-Europe.aspx)**

We dedicate our investigation to the memory of Professor Maurice Fraser. The Commission was his initiative: sadly, he died last February, unable to see its completion. It reflected his life-long passion for Europe and we hope we have done his memory justice.

**Iain Begg**

**Kevin Featherstone**

## A new chapter in the UK's relationship with Europe?

Whatever the outcome of the referendum to be held on 23rd June 2016, the relationship between the UK and the rest of Europe – never an easy one – will change. Culturally, politically, economically, philosophically or socially, Britain has been shaped by Europe and has, in turn, done much to make Europe what it is today. The UK and Europe, in short, have deep ties and a shared history. 'Brexit' would re-structure that relationship, but it will remain of fundamental importance.

The LSE Commission has sought to cut through the hyperbole and provide an overall assessment of the gains and losses from remaining in or leaving the EU. Undoubtedly, British voters face a stark choice in the referendum which will determine the UK's position not just in the EU, but also beyond. The emotional appeal of a vote to leave is strong for many, but so too is remaining part of 'Europe', especially for younger voters. It is not, therefore, a choice between heart and head or between project fear and project liberation, but one of how we see Britain's place in Europe and, indeed, the world.

A number of recurring themes emerge from the work of the Commission, all of which bear on the referendum choice:

- The implications of 'Brexit' are difficult to estimate without knowledge of the likely relationship the UK might have with the rest of the EU and the possible scenarios range quite far.
- It is difficult to equate economic estimates with cultural values in any overall assessment. While, given certain scenarios, it may be feasible to estimate some of the impacts on the economy, these have to be placed alongside a set of considerations that ultimately rest on how we see sovereignty, the protection of our rights, of our identity, and the like.
- Moreover, the likely impacts of a vote for Brexit vary considerably across a whole range of dimensions and this makes any overall 'cost-benefit analysis' very complex. The variation involves high or low-skilled workers; large or small firms, and those which trade or do not; regional conditions; the various levels of government in the UK; and different social groups.
- At the same time, the impacts on some sectors elicit a high degree of consensus amongst the relevant stake-holders (e.g. higher education), while in others interpretations vary considerably (e.g. financial services).
- A vote to remain in the EU, on the basis of the deal the Government has negotiated, will not resolve many of the thorny issues that have made the UK's place in Europe so controversial. As a result, euro-scepticism is likely to remain a potent political force in British politics.



## The idea of European integration

For many years, the notion of ‘ever closer union’ has been at the core of the European integration project, with an inexorable logic that once each stage had been completed, the ‘project’ would move on to the next stage on the path towards a political union in the form of a federal Europe. An emphatic conclusion on ever closer union is that this depiction no longer fits the facts. Instead, the EU is now moving to a much more nuanced form of integration. Rather than structures and outcomes, what is increasingly evident is that some countries are reluctant to integrate as rapidly as others (sometimes referred to as two-speed or multi-speed Europe), but also that there is a willingness to accept different configurations of integration (variable geometry or even à la carte Europe).

‘Ever closer union’ is a contraction of the more enigmatic formulation: ‘ever closer union of the peoples of Europe’. The latter juxtaposes two features of the European Union

that are difficult to reconcile.

First, there is an inherent tension between the singularity of a ‘union’ and the plurality of ‘peoples’. Then, there is *ambiguity* over whether it concerns (primarily) the cultivation of conditions for closer relationships between peoples – call it a union of minds – or a political body aiming at closer political relationships between nations – call it a union of governments.

Both conceptions also bear on the sovereignty questions which feature so prominently in the referendum campaign. An EU member state, more than an outsider like Norway, manifestly has a say in the development and powers of the union in those areas where sovereignty is shared or pooled. But there are also times when protection of the national interest has to be re-asserted. The 2016 renegotiations should be understood in this light. However, the subtleties of these positions are prone to be over-simplified by the UK media or completely avoided. For example, the BBC was the only major EU public broadcaster in Europe not to air the debate between the European Commission presidential candidates in 2014. In a certain way, the British media simply reflect the lack of understanding and interest in the EU, and not only in Britain: polling showed that 90% of voters throughout the EU had never

heard of the pan-European parties involved or of the Commission candidates. The story the British media focused on was, instead, the rise of UKIP.

Although the role of the European Court of Justice (ECJ) in making rather than interpreting law has attracted criticism, the idea of ‘ever closer union’ has rarely featured in ECJ rulings, even if it has appeared in them from time to time. Had the Court been barred from using or even tacitly appealing to the phrase, it is likely that it would have reached the same conclusions in the 57 occasions when the words actually appeared in its rulings (57 out of 29,969 rulings).

“the phrase ‘ever closer union’ no longer fits the facts in an EU moving towards more nuanced forms of integration”

## Economic Europe

For many, especially in the UK, the principal rationale for European integration has always been around having an area in which trade is unfettered and there is free movement of goods, services, capital and, more controversially, labour: in other words, the single market. Most of the studies undertaken to assess the economic effects of Brexit have used macroeconomic models to generate simulations of different forms of non-membership. Among these, the estimates from the Treasury, identifying a short term risk of recession triggered by Brexit and longer term loss of GDP and jobs resulting from a less appealing trade regime, have achieved the greatest visibility.

Five main conclusions can be drawn from examination of the various studies. First, nearly all the projections find that the UK would be worse off in terms of GDP outside the EU. The main exceptions are studies by *Open Europe* and by *Economists for*

*Brexit*. *Open Europe* finds that if the UK obtains full access to the EU following secession negotiations, it will obtain a small boost to GDP, while the *Economists for Brexit*, using a rational expectations model with strong assumptions about the supply-side responses to Brexit, posit a substantial gain.

Second, the conditions closest to EU membership are shown by most studies to have the least costs, whereas outcomes resulting in heightened barriers to EU market access are the most damaging. However, an important third conclusion is that while macroeconomic analyses can provide an over-arching assessment of what is likely to happen and when, there are bound to be winners and losers of different sorts. Some regions or localities may be adversely affected, while others do better; and there could be effects on inequality. For example, if Brexit leads to tariffs being imposed on certain categories of UK exporters, there will be

ramifications for the regions in which they are concentrated. Equally, new opportunities may emerge for companies in domestic markets.

Fourth, there seems to be agreement on all sides, including some of the more prominent advocates of Brexit, that the dislocations and uncertainties associated with the exit process will cause short-term losses to the UK economy, possibly with lasting adverse effects.

The fifth main conclusion is that while much of the discussion of public finances has focused on the potential gains for the UK economy of no longer being a net contributor to the EU budget, this direct gain will be more than offset by GDP loss. Lower GDP leads to a decline in tax revenue and induces higher public spending on unemployment benefit. Consequently, Brexit is likely (based on what most studies show) to see a reduction in the resources available for other purposes, such as the NHS.

## Brexit and its impact on the labour market

How the EU affects the UK jobs market and employment protection is a central focus in the referendum debate. This agenda animates the trade unions and plays to the sensitivities of Labour voters – many of whom could be determinate to the

outcome of the referendum. It is also linked to the politically very sensitive and tricky issue of EU workers entering the UK jobs market.

Ultimately, the issues here depend on the extent to which the UK's socio-economic model diverges, or

should diverge, from that of the rest of the EU, as that determines the assessment of costs and gains from membership. Euro-sceptics often argue that the success of the British economy rests on it being flexible in its wages and employment

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conditions. Yet, it is misleading to assume that the rest of the EU has a shared social model. The EU – and especially its southern European members – is shifting in a more liberal direction, catching-up in this regard with the countries of central and eastern Europe. Moreover, the UK has learned to live with EU social policies: the areas of controversy are limited, e.g. the Agency Workers Directive and the Working Time Directive, both of which are replete with ‘opt-outs’ for firms and workers. Disentangling UK law from EU employment regulation after Brexit would not be straightforward: Norway, with its special EU relationship, has had to accept the Working Time Directive as a condition for having access to the single market.

Jobs in several sectors of the UK economy are very reliant on inward

FDI, much of which is attracted by the fact of UK participation in the European single market. Moreover, the EU is important in the supply-chain of British firms. Both factors could mean Brexit prompts firms (and jobs) to re-locate. There is something of a division between larger firms (as represented in the CBI and the Institute of Directors, both of which favour continued EU membership), more engaged in cross-EU trade, and SMEs (which are more divided on Brexit). The latter are less likely to be involved in EU trade and for them EU regulations can have a disproportionate impact.

It is important to distinguish actual practice in the UK from notions of what we should aspire to, as this may hide ideological choices. Unions fear that demands for Brexit mask an impetus to make the UK economy more flexible, with fewer

safeguards for workers. Businesses often see EU employment regulation as costly, dis-incentivising to job creation, and facilitating employee litigation. Yet, the weight of EU laws can be exaggerated: regulations can be side-stepped and may be poorly enforced and the evidence from bodies such as the OECD is that the UK is relatively lightly regulated. Moreover, the OECD has found no clear relationship between the strength of employment protection and levels of unemployment – the more regulated German and Swedish economies have been as successful as the UK’s over the last few decades.

The impact of EU migrant workers entering the British labour market is, overall, positive for the economy and limiting their flow is likely to reduce our economic growth, yet it has to be acknowledged that local tensions can be acute. Businesses are already concerned about labour shortages. In this respect, British firms seek to ‘free-ride’ on the investments in skills made by other EU countries.

## Financial regulation

The City of London is both one of the most substantial sources of foreign earnings for the UK economy and the leading European financial centre, so that how it is regulated is a crucial dimension of the UK-EU

relationship. London also stands out within the EU as being the only truly global financial centre. However, participants in the hearing differed as to whether the distinctiveness of UK financial services warrants a specific

approach to financial regulation which could come under pressure outside the EU.

UK negotiators, bolstered by effective lobbying from the City,

have proved to be adept over the years in ensuring that EU proposals for financial regulation take full account of the interests of the British financial sector. An example is how the EU's Directive known as 'MIFID' – relating to fund management – was negotiated. Concerns have nevertheless arisen about whether the measures already taken or in the pipeline to reform the governance of the Eurozone will be detrimental to the UK, although the interests of banks may differ from those of UK taxpayers. One of the four key areas for the renegotiation of the UK's relationship with the EU was to establish safeguards against Eurozone caucusing.

A specific complication of Brexit would arise in periods of financial instability. The cooperation of the European Central Bank would be needed in providing euro liquidity and, while there would manifestly be a common interest in forestalling financial instability, the UK would

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not be fully in control. In or out of the EU, therefore, the UK will need to establish mechanisms for cooperation with the Eurozone in fostering financial stability, resolving failing banks and sharing financial risks. Warnings from the Bank of England suggest Brexit itself could lead to uncertainties that could endanger financial stability and, as a result, provide an early test of cooperation mechanisms.

Regardless of EU membership and the regulatory regime to which the City would be subject following a Brexit, an important conclusion of the hearing was that London would retain its position as a leading global financial centre, but could face greater uncertainty. Some of

its activity would be displaced to elsewhere in Europe, if only because of the need to have subsidiaries inside the Eurozone/ EU, and there would be barriers to selling into the EU market that could curtail future business opportunities. As many in the City have pointed out, the UK has a large surplus in trade with the EU in financial and business services giving partner countries few incentives to strike a deal to maintain market access. Slow attrition of the City's dominant position in EU financial services, entailing a loss of jobs, could occur, although it was noted that the City is far from homogeneous.

## Impacts within Britain

Because the EU referendum will take place against the backdrop of constitutional change within the UK, a new relationship between the UK and the EU could have repercussions for the British political system. The governments of Scotland, Wales and Northern Ireland differ from the national government in their views on the UK's future in relation to the EU, and no national politician can

any longer truly speak for the United Kingdom. Decisions about the UK and the EU will influence domestic politics for years to come.

Brexit would mean that the UK may need a new constitutional settlement between central government and the various forms of devolved or sub-national governments, not least because of the need to recast post-

Brexit financing of the constituent parts of the UK. This is particularly important in England, with London at the forefront. Moreover, the effects on different localities and regions within the UK will be uneven. The UK has consistently been a net contributor to the EU's finances, but in the current period, two areas within the UK were net beneficiaries: Cornwall and West Wales. Scotland

considers itself a net contributor, but socially a net beneficiary.

Talk of a second Scottish referendum following a Brexit is probably premature in the absence of public opinion consistently and overwhelmingly favouring independence. The economic case for independence also needs to be remade following the sharp drop in oil prices since September 2014. Continued membership of the EU is nevertheless a fundamental pillar in the SNP's case for Scottish

independence. It is not seen as incompatible with separation from the UK, and it is salient that Scotland is already used to 'shared sovereignty'.

For Wales, Europe is a very important dimension for the economy. Many firms export to the EU and many EU companies have offices in Wales. There has also been substantial financial support for Wales, through both the CAP and EU Cohesion Policy. In Northern Ireland the vote might have implications for the post-peace process settlement.

Some politicians in the Republic of Ireland and Northern Ireland are concerned about the scale of the impact if the UK left the EU.

In a context of continuing austerity policies at national level, many local governments have only been able to maintain economic development policies by using structural funds and other EU funding. The UK government would have to decide whether and to what extent to substitute for spatially targeted EU funding if Brexit happens.

## Free movement of persons and migration

A central plank of the case for Brexit is that the right of EU citizens to move to the UK has resulted in more immigration than the UK can absorb. The upsurge in such flows since the accession of relatively poorer Members States has undeniably been substantial, but needs to be situated within a broader debate on the costs and benefits of the EU's single market. An underlying dilemma is whether freedom of movement should be seen as the cost of doing business in the EU, or instead, interpreted purely through the lens of national politics, especially the pressures on public services.

Indeed, the integrity of the single market would be compromised if one facet of it were to be restricted. The difficulty of compiling accurate and timely data exacerbates the problem, making it all too easy for claims and counter-claims to draw on different sources using diverse concepts. For example, labour mobility and permanent migration are not at all the same phenomenon, yet are prone to be conflated, and there has been a further confusion between the refugee crisis and intra-EU mobility.

There is clearly a divide between negative perceptions of the effects

of migration among the general public, and much of the empirical evidence which suggests that effects are either negligible or positive. The balance depends, first, on whether the economic, social or cultural effects of the EU's freedom of movement policies are being considered, but also on whether the issue is examined from an aggregate perspective or that of groups or individuals. Despite evidence that the cost of welfare benefits for EU migrants is relatively small, it is significant in terms of public attitudes in the UK.

Labour mobility is not a new phenomenon in the EU, although for the UK the post-2004 experience can be considered exceptional. Ironically, some of the strengthening of freedom of movement in treaty

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revisions stems from the concern that there had been too little in the past. It is also seen by many as a basic principle of what it means to be a European, previously denied to citizens of countries subject to Communist rule. There are concerns that emigration may lead to a 'brain drain' and a worsening of the demographic outlook in 'sending countries', and that the loss of qualified workers could reduce economic dynamism. However, these countries benefit from remittances returned to them by those working abroad.

There is no easy solution to the challenge of EU migration. On one side, there are treaty commitments and the rights afforded to citizens of other EU member states, yet there is clearly a popular demand in the UK to curb the inflow. Recalibration of the welfare state is one possible avenue, but it has to avoid overt discrimination. The emergency brake negotiated as part of the renegotiation concluded in February can play a role, but its impact is likely to be limited even though it may have a greater symbolic resonance. While Brexit promises

to return control of immigration to the UK, many of the pull factors motivating current migrants will remain in place. Migration would be likely to decline significantly only if UK economic performance deteriorated. Otherwise, curbs on migration can be expected to have an adverse effect on the ability of business to fill labour shortages and may result in more irregular migration

## A boost for democracy?

The EU's democratic responsiveness has been tested in recent times like never before. The adoption of increasingly constraining common policies in a more heterogeneous union almost inevitably provokes clashes over the political choices being made. This is about both what is decided and how it is decided. The political upheavals in Greece, in the context of the debt crisis, are one extreme example of this clash, but a 'euro-sceptical' mood is evident in most EU states. Opinion polls show increasing concern with the EU in some of the oldest, and traditionally most pro-EU, member states.

There are two potential implications here. First, would a vote for 'Brexit' provide a boost to euro-sceptical forces elsewhere in the EU, further

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de-stabilising the Union? There are possible knock-on effects in the French presidential elections of 2017 (helping the prospects of Marine Le Pen) and the fillip given to the far right in countries such as Austria, Hungary, the Netherlands, Poland and Greece. 'Brexit' would be unwelcome for traditional, mainstream politics across Europe, de-stabilising a project already struggling to confront several challenges and to respond to public sentiment.

A second implication is the extent to which the UK referendum might highlight a 'democratic moment' for the EU. Referendum campaigns on Europe are highly unpredictable, as past experience in France, Denmark, Ireland and The Netherlands has shown. The conduct of the campaign itself is likely to be decisive in the British case, given that the polls continue to suggest a close outcome. But, whatever the result, the referendum is unlikely to end the controversy over British membership

“Britain’s referendum is unlikely to resolve political dilemmas or result in a clear enhancement of democratic processes”

or settle many of the key issues. Euro-scepticism is likely to remain a significant political force even after a vote for Britain to remain in the EU. Thus, the question of how best to strengthen public engagement in the EU process would remain

At the heart of much of the ‘leave’ campaign has been the contention that the UK parliament has lost the ability to exert democratic control over decisions affecting ordinary lives. Governments across Europe, including in the UK, have tended to regard the activism of national parliaments on EU matters as an unwelcome and unmanageable constraint on their

ability to negotiate the best deals in Brussels. The enhanced ‘red card’ system for national parliaments to be able to flag concerns about proposed EU legislation – a matter pressed by the Cameron government – is one potential corrective. Yet, here again, the heterogeneity of the EU provides a challenge to innovation: national parliaments across the EU differ greatly in their scrutiny powers and practices and ‘one size fits all’ solutions are difficult. Some regard the attempt to strengthen the role of national parliaments in EU processes as doomed to fail, given the conflicting interests and the diversity of traditions.

If the referendum vote is for ‘Brexit’, then the UK parliament will have to engage in a lengthy and complex process of legislative change – often on highly technical matters of market or trade regulation – alongside an evolving set of negotiations with the rest of the EU and our international partners. While, in principle, this places Parliament centre stage, the enormity of the agenda and the political sensitivities of external bargaining risk overwhelming and/or distancing MPs.

In short, the ‘democratic moment’ of Britain’s referendum is unlikely to resolve political dilemmas or result in a clear enhancement of democratic processes, either in the UK or in other member states. The debate over democracy and the EU will be far from over.

## Safeguarding rights

Similar concerns arise in the context of how a supranational human rights regime impacts on democracy at the domestic level. The UK lacks a settled narrative, or perhaps even a legal framework, that can comfortably accommodate a European dimension. Recent controversies, such as over the voting rights of prisoners, have proved toxic. They highlight the sensitivities over who decides such issues.

The role of ‘Europe’ is often misunderstood because it comprises

two distinct elements: that of the EU (in particular, its ‘Charter of Fundamental Rights’, EUCFR) and that of the Council of Europe (and the ‘European Convention on Human Rights’, ECHR). They raise separate sets of issues. The EUCFR has grown in significance in recent times. Brexit might lead the UK to repeal it, though its status may be tackled on a case-by-case basis or even left intact. A decoupling of British law from EU directives would create a complexity and, possibly, an inconsistency with respect to

the rights enshrined in European legislation, with implications for, for example, the safeguarding of workers’ rights.

Brexit would not directly affect the applicability of the ECHR, though a separate debate has taken place on whether Britain should continue to abide by its terms. The repeal of the ECHR by the UK would have a number of implications. Some relate to the impact in terms of devolution – Scotland, in particular – and on the UK Human Rights Act. There is a risk

of the lessening of rights protection: an 'ECHR-minus' set of provisions displaying a shortfall and greater scope for political interference.

The paper presented by then Secretary of State for Justice, Chris Grayling, in 2014 was criticised for foreshadowing a British bill of rights that offered fewer rights to fewer people. Moreover, a repatriation of laws and rights could give a worrying signal as to Britain's commitment to international cooperation and standards in rights protection.

The impact of Brexit on rights would depend on several current

"The impact of Brexit on human rights and legal entitlements would depend on several current unknowables"

'unknowables': what would happen to the EUCFR in relation to domestic laws; whether this might be followed by a repeal of the ECHR; and whether the provisions of a new British Bill of Rights might offer lesser protection. The prospect of Brexit has, itself, re-cast the domestic debate on rights: posing various and competing narratives on the advisability of internal and external

reference points. Beyond that, the debate also rests on alternative visions of the appropriate social model for the British economy: concerns over the right to choose may mask a preference to reduce protection.

## What Brexit might mean for Europe

A 'no' vote in the UK referendum would shake the EU suddenly and deeply. It would pile on the agony amidst the refugee and debt crises and deepen the general air within the EU of self-doubt.

An early challenge will be how to manage 'Brexit'. The best strategy for Britain's partners would be to wait for London to present its proposals for a new relationship. Importantly, the other 27 EU member states are unlikely to be able to agree a first offer to the UK. Their initial tactic will be to wait and see before reacting, especially if part of the political fallout in the UK is a change of Prime Minister. If this happens, the government itself would be uncertain as to the principles of any new deal, and

Whitehall would risk confusion as a result. But both sides will have an interest in stabilising the situation as quickly as possible. This could easily become an immediate challenge if Brexit engenders jitters in the international financial markets.

The alternatives to EU membership for the UK are all contentious. The Norwegian and Swiss models would involve a substantial 'fee' for single market access, yet limit Britain's ability to influence the market and trading regulations to which its businesses would be subject. The EU, in turn, could lose a major net contributor to the EU budget. Britain's partners may well seek a high price for continued access to the single market. The alternative of the Canada model

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offers largely tariff-free access to the EU, but it does not address the matter of product standards and other non-tariff barriers which will be crucial to access, especially in the tradeable market services in which the UK is increasingly specialised.

Even outside the EU, Europe would still matter to Britain. Following Brexit, the EU might become more 'inward-looking'. In EU Council decision-making with qualified majority voting, France will become more pivotal in a number of areas. Britain is a long-standing advocate of freer trade and far-reaching structural reforms. The relevant

coalitions supporting such policies in EU meetings are likely to be weakened, posing market access issues for UK exporters.

Geopolitically, Brexit would threaten the EU's global role: it is not clear that it would remain a serious actor on the world stage without the UK. It would lose a member with one of

its biggest military and diplomatic capacities, is its main advocate of interventionism, and has the strongest links with Washington. The implication is that 'Brexit' will weaken Europe's ability to stand up to Russian aggression, respond to the challenges of jihadism, and cast doubt on its rapport with emerging economies in Asia.

## Britain and Europe on the global stage

For advocates of Brexit, part of the lure is that it will enable the UK to regain control of its international relations, and to escape the constraints, not to mention the procrastination, of decision-making by twenty-eight Member States. However, the formal right to take your own decisions is not necessarily the same as the capacity to have influence and achieve goals. Indeed one concern is that, in many international fora, the UK outside the EU would be a less attractive ally or interlocutor and would, as a result, find it harder to forge and conclude the deals it seeks. Following a Brexit, the UK would be more likely to

become a rule-taker instead of rule-maker. Britain outside the EU would complicate policy-making on security and terrorism issues.

The EU, through the Common Foreign and Security Policy (CFSP), provides an invaluable 'diplomatic alliance' for the UK. This cannot be easily replaced (if at all). Brexit would be a major worry for Europe's most important partner, the United States. Outside the EU, the UK will still be an influential voice, especially on matters of financial regulation, but its bargaining power will be weakened. Outside the EU, the UK might develop an interest in having the most important decisions taken in NATO rather than in the EU. This could undermine the European effort. However, NATO would clearly remain a far more important locus of action for common security policy, given the more limited role of the EU as a security actor. Yet there are concerns about a weakening of the US commitment to European

security at a time of uncertainty and tension, not least in the European neighbourhood.

Aid is a long-standing EU foreign policy instrument, regarded as a European success in which the UK has played a significant role.

Most decisions on foreign and security policy are in the hands of national governments in the EU, especially for the larger and more powerful Member States such as the UK, so that Brexit in some respects would have only limited consequences in these policy areas. European initiatives in this domain have had a chequered history, yet the departure of the UK is likely to weaken them and make life more complicated for the EU in seeking to conclude more bilateral deals.

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## Brexit and Higher Education

'Europe' has rarely been a central item on the agenda of British universities. The referendum has changed matters. The great bulk of opinion within the sector favours continued British membership and fears the implications of Brexit. But it has encountered difficulties in communicating these concerns and having a distinct impact on the public debate.

Universities are typically seen as national champions and their performance rated in world league tables. The fact often ignored is that the successes of UK universities have been bolstered by EU inputs and cooperation. 'Universities UK' has argued that EU membership strengthens British universities. Economic ties are also strong. Over 27,000 students from the rest of the EU come each year to study in Britain, generating some £3.7bn for the economy and supporting over 34,000 jobs. Under the EU's Framework Programme (FP7), the UK received €8.8bn (£6.8bn) of funding, estimated as a net gain of some €3.5bn (£2.7bn), among the best returns across the EU. An influential grassroots movement, Scientists for EU, has shown how much the UK gains in terms of knowledge from working together: the EU is on a par with the US in scientific output.

Those favouring Brexit argue that Britain would save money and be

able to provide higher funding to its universities, while pointing to the ability of non-EU member states like Switzerland to participate in EU schemes like the Framework Programme. Yet, the Swiss case is one of costs and vulnerability. When a Swiss referendum in 2014 rejected the EU's principle of free movement, the EU responded by making Swiss participation in its programmes both provisional and costly. Swiss researchers could no longer lead research projects funded by the EU and Swiss participation in the ERASMUS student exchange programme incurred a doubling of costs per student.

The potency of the 'Leave' argument is greater when combined with other, wider concerns. Thus, if Brexit deters students from coming to the EU, it will help to reduce net immigration, although the loss of income for the tertiary education sector and the economy could be damaging. Similarly, public sentiments concerning national sovereignty may trump the specific interests of universities for EU engagement.

Few university vice-chancellors have entered the referendum debate.

The case for universities has tended to be left in rather abstract terms, detached from the experiences of ordinary voters. Some universities are hesitant to enter the fray, preferring their civic role to be one of fostering

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high quality analysis of the issues and implications. It has been largely the grassroots movements of scientists and students that have raised the big issues: solidarity across the EU, tolerance, and peace. But the extent of the sector's consensus in favour of 'remain' is considerable.

## Concluding reflections

Referendum campaigns create heated debate and ‘red herrings’. There is little reason to suggest that ‘Brexit’ would disturb peace and threaten war in Europe. The logic of building the European Union has no parallel with Hitler or Napoleon. Such big claims sit uneasily with earlier protestations by protagonists on both sides that the arguments for ‘stay’ or ‘go’ were finely balanced. Similarly, statistics can animate, but also mislead: the cost of the UK being inside the EU is not £350m per week, while the effect of Brexit on house prices is not easy to predict.

On the evidence of our hearings the choice is about weighing-up contrasting risks. Brexit is largely a leap into the unknown and there are no ‘off the shelf’ solutions offering Britain tangible advantages. Instead, the potential gains depend on what is currently unknowable: what kind of deal may be available to the UK. In the long-term, there may be benefits from ‘Brexit’, but in the short to medium term there is a risk of instability and economic losses. Most economic assessments see withdrawal as leaving the UK worse-off, while any budget saving from not paying into the EU budget would be more than off-set by GDP loss. The task of extricating the UK from the EU would be complex, time-consuming and costly in political and economic terms. None of Britain’s major trading partners believes trade

would be as easy after Brexit. Plainly, the City is important to the UK economy, but Britain’s large surplus with the rest of the EU in financial and business services suggests few incentives for our partners to maintain access to their markets for these services.

That said, the impacts of Brexit are likely to be differentiated across the UK by geography, economic sector and social group. The relative winners and losers may vary over time, as business adjusts. Some sectors – including higher education – could take a permanent hit. On the sensitive issue of immigration, public perceptions of burdens on local services are at odds with the evidence that its macro-economic impact is either positive or negligible.

Alongside these economic risks, are the ‘process’ issues of how decisions are made and their effect on our democracy and sense of accountability. Clearly, many voters – not only in Britain - feel very distant from EU decision-making. This is reinforced by a sense of our identity being threatened, although the issue of sovereignty is far from straightforward. In principle, Brexit would enable Parliament to pass laws unencumbered, but this is a chimera if the right to choose is not backed up by the power to realise them. Maintaining access to the single market would oblige the UK to

continue to adopt EU laws. Similarly, a desire to be free of EU charters and the European Convention on Human Rights would raise concerns about what might be lost. Domestically, attempts to curb workers’ rights would be resisted.

Brexit would change Britain’s place not only in Europe, but also the world. In foreign policy, both the EU and the UK would be weakened by Brexit. No world leader sees Brexit as strengthening Britain’s ties with them. It is not in their interests, save (perhaps) for President Putin. There is something of a trade-off between significant costs in lost jobs and growth, the risk of lesser protection of rights, and a weaker international voice, against perceptions and sensibilities over accountability, sovereignty, and identity. For the latter, feelings matter, even though the gains may be contestable. This tantalising, perhaps irreconcilable, equation underscores the decision to be made on June 23<sup>rd</sup>.

Without doubt, the referendum decision is one of very major consequence. This once in a generation choice should not be made on the basis of fear, myth or apathy. The evidence of this Report is measured. It suggests the least risky vote is for the UK to remain in the European Union.

## List of hearings

	Hearing date	Title	Convenor (s)	Assisted by
1	27/11/2015	Financial Regulation and the Protection of Eurozone "outs"	Waltraud Schelkle	Hjalte Lokdam
2	08/12/2015	Higher Education and Research	Anne Corbett	Trenton Marlar
3	16/12/2015	Social Europe, EU Employment Legislation and the UK's Labour Market	Steve Coulter and Bob Hancké	Pieter Tuytens
4	21/01/2016	Freedom movement and Immigration	Eiko Thielemann	Daniel Schade
5	25/01/2016	External Perspectives on the UK's Membership of the EU	Kevin Featherstone	Angelos Angelou
6	25/02/2016	The Implications of Brexit for Fundamental Rights Protection in the UK	Jo Murkens	Sarah Trotter
7	01/03/2016	Britain as a Global Actor after Brexit	Spyros Economides and Mareike Kleine	Julia Himmrich
8	22/03/2016	The UK's Democratic Moment on 'Europe'?	Sara Hagemann and Sara Hobolt	Julian Hörner
9	13/04/2016	Implications of a Brexit for UK National Governance –and Local Government	Tony Travers	Hjalte Lokdam
10	15/04/2016	"Ever Closer Union"	Simon Glendinning	Roch Dunin-Wąsowicz
11	12/05/2016	Economic impact of Brexit	Iain Begg	Fabian Mushövel

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### Contact us

European Institute  
Cowdray House  
London School of Economics and Political Science  
Houghton Street  
WC2A 2AE

**Email:** [europeaninstitute@lse.ac.uk](mailto:europeaninstitute@lse.ac.uk)  
**Telephone:** +44 (0) 20 7955 6839  
**[www.lse.ac.uk/europeanInstitute/](https://www.lse.ac.uk/europeanInstitute/)**

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