Britain's future

Goodbye Europe

A British exit from the European Union looks increasingly possible. It would be a reckless gamble

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“BRITAIN does not dream of some cosy, isolated existence on the fringes of the European Community,” asserted Margaret Thatcher in 1988. Now, increasingly, it does. Opinion polls show that most Britons are in favour of leaving the European Union. Baroness Thatcher’s Conservative Party, which took Britain into Europe four decades ago, is divided between those who long for an arm’s-length relationship and those who want to walk out. The second camp is swelling.

Even the fiercest British critics of the EU are astonished by the speed at which things are moving. Parliamentary rebellions over Europe are becoming easier and easier to organise. Euroscepticism is hardening in the Conservative Party, in much the same way as social conservatism has gone from being a powerful current in America’s Republican Party to an intolerant orthodoxy. The United Kingdom Independence Party (UKIP), which wants to leave the EU, has abruptly moved from the political margins to the mainstream. A referendum on Britain’s membership of the EU now seems a matter of timing.

Continental Europeans are surprised too—and annoyed. They are bewildered that the British should be talking of leaving a club that many believe has shifted decisively in a free-trading, Anglo-Saxon direction in the past two decades. They also resent the way Britain seems to be using the threat of an exit as a bargaining tool, especially at a time when the euro is in crisis. As they see it,
Britain wants to carve out a privileged place for itself in the European club, where it can enjoy free trade without any of the other membership rules. In Berlin and Rome, political leaders argue that Britain needs to make up its mind once and for all: does it want to be in or out?

Oops!

For an economically liberal newspaper that has been sceptical of much that Brussels does, a British exit would be a double tragedy. Britons would suffer far more than they currently realise, as we explain in detail in our briefing this week (see article (http://www.economist.com/news/briefing/21567914-how-britain-could-fall-out-european-union-and-what-it-would-mean-making-break) ). Europe would be damaged too. Britain has stood for free trade and low regulation, so without it the union would be more lethargic and left ever further behind by America and the emerging world.

The speediest way for Britain to tumble out would be an “In or Out” referendum called by a prime minister frightened by rising anti-Europe feeling in Parliament and the country as a whole. David Cameron, Britain’s prime minister, has tried to resist this, hinting instead that Britons would be given a choice between the status quo and a more detached relationship. But few are satisfied with that. Conservative MPs look over their right shoulders at UKIP and clamour for a sharper choice.

Another route out involves a diplomatic slip. The cleverer Eurosceptics, including Mr Cameron, do not want Britain to leave; they just want to bring back some powers from Brussels. But their efforts to do so are making things worse. Last year almost all other EU members lined up against Mr Cameron, who was trying to block a fiscal compact to help resolve the euro crisis. The British now hope that tightening euro-zone integration provides a chance for Mr Cameron to negotiate looser ties. They could be wrong. Other countries are tiring of British demands. Many, including Germany, would prefer to avoid a British exit, but they are not so desperate to keep Mr Cameron in that they are prepared to concede much in the way of social and labour-market regulation. And some, such as France, might positively welcome the departure of the club’s most awkward member. Bad-tempered negotiations would increase the likelihood of an “out” vote in a British referendum.

Little sovereignty, large cost

And what if Britain left? It could grab a few benefits quickly. The nation would save about £8 billion ($13 billion) a year in net budget contributions. Freed of the common agricultural policy, its food could become cheaper. If it pulled out of the single market, it could do away with annoying labour directives. The City would not have to worry so much about a financial-transaction tax and creeping European finance rules.

Yet these gains would be greatly outweighed by the costs of a British exit, which would dent trade with a market that accounts for half of Britain’s exports. The carmakers that use Britain as their European operations base would gradually drift away, along with large parts of the financial-services industry. Britain would
have to renegotiate dozens of bilateral trade deals from a much weaker position than it enjoyed as a member of the EU. It would cut a greatly diminished figure on the world stage. It would have bought some sovereignty, but at an extraordinary cost to Britain—and its partners.

Among those who want out, there is talk of finding an accommodation by which Britain would leave the EU but still trade freely with it (the equivalent of eating in a restaurant but not paying the cover charge). Some Eurosceptics suggest Britain could join Norway in the European Economic Area. That would leave it bound by EU regulations that it would be almost powerless to shape—a situation many Britons, especially Eurosceptics, would find intolerable. Others hope Britain might get the same deal as Switzerland, which is a little further removed but gets good access to the single market. It wouldn’t: the EU already regrets giving Switzerland the Swiss option, so it is scarcely likely to give bigger, more troublesome Britain the same deal. Again, disappointment and a referendum beckon.

Can anything be done to prevent this slow-motion disaster? Quite possibly, it can. Oddly, Mr Cameron should try emulating Baroness Thatcher. She is remembered today as a handbag-swinger who commanded Brussels to retreat, but she also knew how to make common cause with other European leaders. Unfortunately, the quality of British EU diplomacy has deteriorated in recent years. Obsessed with repatriating powers and with appearing tough to their domestic audience, Britain’s current leaders seem to have forgotten the art of dealmaking. Mr Cameron has a good case to make, especially when he argues for extending the single market to promote growth. He also has powerful sympathisers in Europe, including Germany’s Angela Merkel, but they seldom become useful allies because Britain is seen as a blackmailing zealot.

The other priority should be educating Britons about what exactly a British exit would really involve. Big business and the City, whose interests lie solidly inside the EU, need to take a stand. The Labour Party, which has been playing a cynical and dangerous game, also needs to change its line. In October Labour MPs voted with anti-European Tories over the EU budget, handing the government its first major defeat. By strengthening those who want to leave Europe, Labour is making it more likely that a Conservative government will have to promise an in-or-out referendum. If it does, Labour may be bounced into promising the same.

Most of the heavy lifting, at home as well as in Brussels, will have to be done by Mr Cameron and his chancellor, George Osborne. They need to remind Britons of the victories that have been won within the EU and of the dangers of falling out of it. And above all, they need to rediscover the virtues of muddling along and keeping options open. The referendum is a good example. Rushing to hold a simple in-or-out vote sounds clear and decisive. But stalling for time is wiser. The government should resist demands for a vote at least until it becomes clear what sort of Europe Britain would be voting to remain in or leave. This sort of wait-and-see approach may feel unsatisfactory, but it is what kept Britain out of the euro.
Britain’s position in Europe may become untenable, if the resolution of the economic crisis binds the countries of the euro zone ever closer and all other EU countries join. But that is not a certainty, and nor is Britain’s steady marginalisation. Difficult and often humiliating as it may be, the best course is to stick close to Europe, and try to bend it towards Britain.

from the print edition | Leaders