



Should the United Kingdom Leave the European Union?

Adam S. Posen argues that a British vote to opt out of the European Union would be a “lose-lose” for both sides of the English Channel.

Transcript of interview recorded January 10, 2013. © Peterson Institute for International Economics.

Steve Weisman: Prime Minister David Cameron is leading the United Kingdom into a debate about whether Britain should leave the European Union. Adam Posen, president of the Peterson Institute for International Economics, who has just returned from a stint earlier last year at the Bank of England, is here with me, Steve Weisman, to explain the issues. First, Adam, why is Prime Minister Cameron reopening this debate?

Adam Posen: I think it’s something which has to be seen in the context of two big developments. One is: the British economy, for all its problems over the last few years, sees itself as having been very wise, on the part of most people, to have stayed out of the euro area. That is probably true, I think, on balance, although I think it’s not quite as “done deal” as some people make it out to be. So there is this sense, well, look at how the Europeans—at least the euro area members—are binding themselves closer and closer together. They are already messed up—that is the perception—do we really want to saddle ourselves with even more of that?

The second piece of context is that the United Kingdom is actually a country made up of four nations—Scotland, Wales, Northern Ireland, and England—and there’s going to be a referendum in 2014 on whether or not Scotland will devolve further and get greater independence from the United Kingdom. I am quite confident that that referendum will be lost. I think, for the sake of the Scottish people as well as the British people as a whole, it will be good to lose that referendum.

But that already puts even more in the forefront of people’s mind the precedent that it is OK for sub-nations or subunits within some sort of larger aggregate to vote on whether they are in or out. And I guess the final piece of context that has to be seen is that the U.K, for geographic and historical reasons, has always felt itself—the average British person has always felt themselves—less a part of Europe, so to speak, than your average French, German, Austrian, or even Spaniard would. And so when these negative comparisons about economies or opening up to popular opinion come up, there is a loud minority in the U. K. that says, “Hey, we never really voted on Europe. Let’s vote on it.”

Steve Weisman: Now the European Union is also heading toward more fiscal and political unification with implications especially for regulating banks. Is Britain justified in fearing that it might be dictated to by those developments?

Adam Posen: In my opinion, no. I don’t think so because you are absolutely right and – as Jacob Kirkegaard and Angel Ubide, and Nicolas Véron on the staff here have written – there are positive movements in what is called banking union within the euro area and within Europe as a whole and on fiscal policy.

They may not be the ones that British politicians or British people, right now, might want. But they are also not necessarily life or death issues. And the usual experiment—which is the right one—that British people have to think about is not, “Do I take my toys and go home and then I just avoid being stuck in this bad regime?” It’s: “What happens if I engage in Europe and maybe can change the terms of the regime because the rest of Europe really wants us in—particularly on financial issues where London is such an important financial center.” And alternatively, “If I do take my toys and go home, I don’t have anybody to play with.”

In other words, I go off in a huff and leave the European Union—which is not exactly what Cameron is talking about—but anyway, I take away a lot of my relationship with the European Union, I may lose a lot of business. I may lose a lot of friends. London may turn out to be a less important financial sector.

I think it’s very interesting that most of the people who represent the City—what the financial center in London is called—be they business people or officials or grandees of various sorts—have come out very strongly and said, “Please don’t leave Europe,” even at the same time that they’d say “Well, we don’t like this regulation,” or “We don’t like that regulation.”

Steve Weisman: Are there any other major downsides that you would see to Britain pulling out, taking its toys?

Adam Posen: I think as always, when you get a little bit of a tantrum, there are downsides. Essentially, what I just said about the financial sector can be replicated in a number of other key economic and even political areas, in trade negotiations. As part of the European Union, Britain negotiates with other countries, including the U.S, as a block and has more bargaining power. And maybe not every deal that the European Union cuts is exactly to Britain’s liking, but they are taken much more seriously and are much more of interest to people as a full-fledged member of the European Union, where there’s an investment in Britain and trade with Britain, in part, because they are seen as an English-speaking, well-ruled launch pad into Europe. It’s not clear—it may be worth the Institute trying to estimate—but there are substantial numbers of investments and trade businesses dependent on the idea that the U.K. is part of Europe.

You can even go further, which is something an American official did in the press, I think, within the last 24 hours, and make the same kind of argument about foreign policy, that you may not like everything about European foreign policy if Britain’s aligned with it. But on the other hand, if Britain’s just out on their own, are they another Australia? Are they another Singapore? Do you really pay as much attention to them rather than as maybe America’s best ally within Europe? So there’s a lot at stake here.

I also believe—to be idealistic for a moment, Steve—as someone who has lived for three years in the U.K, in part because they are so open and so liberal in the European sense of freedom—The Economist Magazine type definition of liberal—it would be such a lose-lose for the U.K. to leave Europe.

It would be a lose for the E.U. because this voice for more liberal policies – which countries like Poland or the Netherlands or Denmark traditionally align with, to try to keep European policies in a reasonable range – would go away. And it would be an even bigger

lose for the U.K., because frankly, I think this would abet the types of prejudices and small thinking of what are called “Little Englanders.”

If you think about some of the more ugly things that came out when the U.S. was debating the NAFTA accords 20 years ago, it wasn't just about, “Do we have good trade relations with Mexico and Canada or not?” For some people it was a question of identity, and for most of us, including most people here at the Institute, it was the idea that, “Well, if you don't want to do this and you turn negative and turn your back, it's not just you don't have expanded trade with Mexico, it's shutting your borders and shutting your minds.”

Steve Weisman: Finally, quickly, it's dangerous to make predictions, as they say, especially about the future. Do you think it's going to happen?

Adam Posen: The referendum will happen, in some form. I'm hoping the referendum question won't be an explicit, “Are we in or are we out of Europe, the European Union?” I think it will be something a little more measured, and I am quite hopeful that the people of Britain, when they stop and think about it, will choose to vote against such a proposal for their economic self interests, for their political self interests, and for the interests of their neighbors. But we've got two years to go, probably, before the referendum and a lot can happen.

Steve Weisman: Thank you, Adam.

Adam Posen: Thank you, Steve.

