Unedited Event Transcript

Long-Term Impacts of Brexit

Simeon Djankov (PIIE), Jacob Funk Kirkegaard (PIIE), Chad P. Bown (PIIE) and Adam S. Posen (PIIE)

Peterson Institute for International Economics, Washington, DC
June 2, 2016

Adam Posen: Good afternoon ladies and gentlemen. I'm Adam Posen, President of the Peterson Institute for International Economics and it's my pleasure to welcome you back and all our friends live on the internet and later recorded for today's international perspectives on Brexit. Obviously, this is a topic that is quite hot not just in financial markets but we have various world leaders including via the G20 and the G7 telling us that Brexit could be a huge systemic risk.

What has happened in the internal debate in the UK as far as I can tell is that, a lot of nonsense aside to the degree, there is a genuine intellectual debate, it has come down very clearly to the vast majority of economists saying this is a terrible idea. And then a bunch of people saying, "But we're deeply concerned about immigration," some for perfectly reasonable reasons, some for less salutary reasons. And that's where the debate is moving. And obviously, the result is quite up for grabs.

For me personally, I had the privilege to serve at the Bank of England for three years and I fought hard to keep Scotland, did my bit to keep Scotland in the Union and I will be personally fighting, continuing to fight hard to keep Britain in the UK--I mean, excuse me, the UK in the EU, excuse me. Britain in the UK--this is the problem, once you go down this road, what happens to Utah, what happens to Virginia.

Anyway, we have a constitution that takes care of it. Joking aside, what we're trying to do today and to cook this up with Simeon Djankov is to take a somewhat both international and longer-term perspective on the Brexit question. I mean, many of the people here obviously are well familiar with the basic issues.

And, what we're going to try to do is present perspectives on even if the vote is against Brexit, as is both likely and I think all of us hope, what is the likely implications going forward for Britain's relationship with the EU, the EU as an economic actor, the UK as an economic actor in various fields.

And, in so doing, we are both being more international. I'm as close as comes to being a Brit on the panel, which is not very close. So, this is definitely an outsider's perspective and therefore we hope useful as an informed outsider's perspective. But also, it is meant to be longer term, not just about what will happen in markets if whatever decision is made in three weeks' time.

We were able to draw on our fantastic internal resources on Europe here at the Peterson Institute and we didn't even have to draw in the French contingent, which as you know is growing and threatening in various ways.

Our first speaker will be Jacob Funk Kirkegaard, Senior Fellow, star of stage screen and we just did the count, the most press-cited fellow in the institute in the last year. He's been associated with the institute since 2002 I'm proud to say. And of course, he's the author of numerous books on structural reform and challenges in Europe.

He's recently been doing a lot of work on European migration issues, was one of the first voices out there to propose the rational idea of migration bonds for dealing with the common European border problem. And, he will speak on the repercussions in intra-EU relations and developments of this -- on the critical issues of labor movement and migration, as well as intra-EU flows. A number of our friends retired in Spain will have an interesting thing to wake up to.

We turn next to -- I don't know what the Bulgarian translation is for the honorable Simeon Djankov. Simeon of course was Deputy Prime Minister and Minister of Finance in Bulgaria from 2009 to 2013. He has, over the last couple years stepped up his relationship with the institute I'm delighted to say and he is now a nonresident Senior Fellow here.

Prior to joining the Bulgarian government and the cabinet, he was Chief Economist in Finance and Private Sector Presidency of the World Bank. He obviously was the author or the originator of the Doing Business Index, which is widely important. And recently, served a term as Director of the New Economic School in Russia. Simeon, as someone who's been a principal in the room, my apologies for prematurely reading the line. He will be talking about intra-EU coalitions and developments in Eastern Europe, which I think is a critical piece of this, the people of not fully studied.

Finally, it's great pleasure for me to introduce Chad Bown. Chad joined the Peterson Institute last month or I guess now, a month and a few days ago in April. He previously was Senior Economist for International Trade and Investment at the White House CEA. He was a Lead Economist at the World Bank doing a lot of great work on trade and investment. Like our colleague Gary Hufbauer, he is the rare economist who takes legal agreement seriously and is co-editor of a distinguished series looking at legal aspects of trade agreements and how that interacts with economics. He's previously been a tenured professor of Economics of Brandeis and a visiting scholar at the World Trade Organization.

We are delighted to have him to sort of -- this is I guess in some ways--well, you did speak last week where we're putting in the work almost immediately in public and inside the Institute. We're delighted to have Chad join us. Chad will of course address the direct head on trade issues of investment realities for the UK and EU in case of Brexit and also what might possibly come out in a positive sense if there is a no vote on the trade front.

So, having introduced everybody, I would now like to turn it over to my dear colleague Jacob to take us through the migration issues as well.

Jacob Kirkegaard: Thank you. Well, thank you very much. It's a great pleasure to be here. And, talking about the long-term impact of Brexit and specific issues about immigration in that regard. And I think really Adam nailed it when he said that ultimately, even if I believe that economic concerns will ultimately decide this referendum because it will convince enough swing voters in the UK to vote to remain, there is no doubt that by and large, the fuel provided for this referendum in the UK has come from immigration. It has come from concerns, various types about border control.

And, we have seen this in the last week or so. The campaign were very clearly, the lead camp has put this issue left and right and center, and they have done so I think for good reasons. And one of the things I will go through in my presentation here is that immigration in the UK is both in economic terms and therefore also of course in political terms are pretty big deal because it has gone up a lot.

It is also politically a good case for the lead case because it is an area where David Cameron at least is politically very weak. Because he, as part of his platforms reelected in 2015, famously promised to keep net migration into the UK below 100,000. This week, we learned that last year it was 330,000.

So again, it wasn't a coincidence that they decided to do this. It also helps them go back to some of the original issues going back to EU expansion in 2004 where the conservatives actually opposed the labor, then labor government policy of having unrestricted access to intra-EU migrants, which led as we would see in some of the data to a significant increase.

So this immigration issue really, is in my opinion, with all due respect to my other speakers, really the most important issue of the referendum also because the effects will continue to linger long after the decision.

But what we see here is basically a chart that will you just why this is the underlying issue, just what has happened. This chart will tell you that actually net migration in the UK has significantly increased in the last 20 years. It is now running at somewhere between 200,000 and 300,000 a year, which is a level significantly beyond levels here in the United States.

But if you break it down a little bit, you will also see that actually there are obviously two components of this type of migration, that's actually three components.

The one that I put in here first is non-EU citizens, which is essentially net migration to the EU that has nothing to do with the EU but is the result of UK's own migration laws, and as you can see, it's up a lot. But actually starting as early as the mid-1990s.

If you then take the next one if I can get it to work, there we go, looking at EU citizens, you will see that it has also risen. There are essentially two main points in time at where this happens. The first one is in 2004 immediately following the expansion of the EU with the 10 new member states. And then again, most recently, in 2014, when the UK was finally compelled to also provide freedom of movement of access to the latest, not anymore, but to Romania and Bulgaria, which only joined the EU at a later point. And unlike in 2004, when Bulgaria and Romania joined, they were not given immediate free access. They actually had to wait the seven-year time period, which is why you only see the bump in 2014.

So, bottom line is that people who want to play the immigration card in this referendum, basically do have a point. It is difficult for – but isn't impossible, that under EU laws, for the UK government to control significant part of its net migration inflows.

But having said that, we should also keep in mind that that doesn't mean that any sort of notion that the UK is being swamped is really entirely at all appropriate. This is a chart that basically focuses on employment-based migration to a number of countries. And it looks at 2008 and 2014, and it breaks it down in two components.

The light bars at the bottom here are sort of permit-based employment migration, which is essentially the kind of migration where you still need a work permit, which for the UK and others, basically mean it comes from outside of the EU. And then the red bars, which is freedom of movement which is basically Article 45 in the EU Treaty, which provides workers the right to locate freely within the EU.

And what you can see here is really the success in many ways of this but in case you are wondering, the UK isn't up there yet. And what this shows you if I put them up here is that the UK compared to the relative size of inflows into pretty much every other EU-15 member actually has seen very relatively small inflows. The ones who would really have a point from this issue are countries like Switzerland, Norway -- not in the EU by the way but member of the EEA and Spain, Denmark, Italy and others. They have seen much larger inflows other than this.

It's also of course important to recognize that this debate is not really about -- therefore in the UK, in my opinion about--they have taken their jobs or that there are an economic burden. This was always a fictitious argument about these people being disproportionally benefiting from social benefits, et cetera, in the UK, essentially benefit tourism.

But what this chart tells you is that that is also a complete fallacy because what this shows you here is essentially, it shows you the employment rates between natives, EU migrants and the difference between the two -- the yellow bars is what you need to focus on. And what this chart basically tells you is that EU migrants are five and a half percentage points more likely to be employed than British natives, which is another way of saying that it is impossible -- and there are plenty of studies that will show this that it is simply a lie to argue that these people disproportionally use social benefits, et cetera.

Therefore, the bottom line of the argument is that you do have the political argument, which is as I said, being played out in the campaign as we speak. But the economic argument with respect to the benefits that the UK has derived from this kind of increased migration from the EU and on the EU is unambiguous. There simply is no economic argument.

So, the question then is, what will happen going forward? And the first one that we'll start with here is this, what happens if there is no Brexit? And there I think the key point is that doesn't mean that the status quo in political terms is going to continue. However, I certainly believe that if there is no Brexit, the illegally -- most of the status quo will continue, which means that you are going to see continuing significant inflows of migrants into the UK both from inside and outside the UK.

You will see an ongoing increase in the UK but also in other EU members to see, to limit the eligibility of also EU migrants' access to various types of social benefits, et cetera. In fact, if you read the February agreement of this year between David Cameron and the EU, you'd say that it's quite explicit on these opportunities because it provides both that you can actually suspend Article 45 under these so-called overarching reasons of public interests, whatever that means, but you can actually suspend it now. You basically have limitations on child benefit portability and you also have a way of now, means testing residency permits, which basically means if you're only in a country claiming to look for work but you have no assets, you may not actually have a right to reside, which again, goes very much against the spirit of many of the EU Treaties. So, this is going to continue even if there is no Brexit.

And to me, the interesting thing here is the political implications of this because what it means is that high levels of net migration as I said is going to continue and I think it's going to continue to fuel the kind of populous anger that's clearly driving by this immigration referendum. And I for certainly would not be surprised to see a party like UKIP, which of course was a party that was founded with the basic idea of having this referendum. Well, if the referendum comes and goes, and they lose, well, what are they going to do?

I unfortunately believe that it's likely they're going to do what Alternative für Deutschland has done in the last couple of years, which has turned from essentially an anti-Euro or anti-EU party into an outright nativist anti-immigration party. And I suspect that this issue will continue as I said to be driven by high net inflows of immigration and it will therefore continue to fuel deep resentment against the EU, I mean, the host anti-Europe fraction within the Tory party.

All right, so, the idea that David Cameron or any conservative British Prime Minister will be particularly a more sensible partner for the rest of the EU after this referendum has rejected Brexit but I don't think it's going to happen. The UK is going to continue to be a very troublesome partner for the rest of the EU and it will have a lot to do with migration.

Now, of course, what will then happen if there is a Brexit? Well, first of all, I think it's very clear. If there is a Brexit, we know that there will be no access to the internal market or indeed in all probability any kind of economic agreement with the rest of the EU unless there is freedom of movement of workers.

The case of Switzerland proves this very clearly that the EU is simply not going to play ball. As some of them said, one was called last year said, "It's either all the four freedoms or no one, none of the freedoms." So there will be no access without free immigration.

And I think we should also be clear that I don't think the French government is going to continue to be the entity that basically enforces British border controls in Calais. So you go into basically have much easier "access" to the UK than you do today that way.

I think, and Adam alluded to this, and actually yesterday, the Prime Minister of Spain, Mariano Rajoy said it explicitly. He said that if they leave, you shouldn't expect UK residents to continue to be able to work and reside legally in the rest of the EU and certainly not with access to hospital and other social services.

So, why certainly, I think – I mean there won't be mass deportations and things like that but we shouldn't expect the kind of free movement of residencies, for particularly retirees, across the EUs to continue.

Now, I'm not going to talk about what the UK government is going to do. I will just say that it's a very open question. What kind of national immigration policy, any certainly conservative led government in the UK could agree to implement after a Brexit? I mean, if you just--even if they have come out this week being in favor of a so-called point system like you have in Australia or Canada, I really think that it will be extraordinarily difficult for them to implement any kind of immigration policy that does not entail a very significant decrease in net migration, obviously, both from the EU but also from non-EU countries.

And then, there is the issue of borders because then my real concern here, I mean, people talk a lot about if the UK leaves, then Scotland will also leave and certainly depending on who you ask in the SNP, they would like to have another referendum. But I actually think that Northern Ireland is a much more pressing concern. Because leaving the EU would mean that you basically have a new border. Once again, between Ireland proper and Northern Ireland and thereby goes a very sort of founding principle for the Good Friday Peace Agreement and the generally good political development you've seen there in the last decade or so. And I think this will be a significant, potentially even security issue in the medium term.

And then of course, the border issue coming back to Scotland, if they leave, well, what are the border issues, and then they rejoin the EU, what are the border control issues going to be inside the UK itself? Again, I think the political uncertainty about this issue will be acute but again, I would argue that most of these underlying political uncertainties really driven by immigration concerns.

And I certainly would also say that this issue is going to continue to fuel what has become essentially a civil war in the conservative party. This campaign has proven in my opinion to be an absolute disaster for the conservative party largely because of the cleavage inside the party over this issue.

But, let me however nonetheless end now and say that as I said, as concerned as I am about this issue, I do believe that economic rationality will win out in the end and populism therefore in the UK will not trump. And I did find this wonderful piece of street art from London that I think signals precisely why it won't happen in the UK or here. Thank you very much.

Simeon Djankov: While, the previous speaker chose to focus on the effects of possible Brexit on the UK itself. In my comments, I've chosen to focus on the possible effects of Brexit or no Brexit on European Union as a whole.

And to motivate this discussion, I would like to show you quickly three figures. First, this is basically a longer term economic growth for the European Union to show that roughly every decade, the European Union on average loses about a percent or a percent and a half of its average economic growth. And if you basically go to the next decade, the predictions of Euro stopped, the European Union's Sole Statistical Body is that average economic growth is going to be in the neighborhood of 0.7%, 0.8% a year, so basically less than 1% a year.

This has been a concern for European leaders for some time as you can guess from this graph but particularly after the Eurozone crisis when some of these topics came to the fore.

And, Europe always compares itself to the main competitor, the United States. So, whatever we thought of the European Union until the Eurozone crisis, its overall GDP actually was higher--actually, this is of the original EU-15 before the Eastern expansion. Overall, Europe was producing more than the United States and that changed just around 2011, 2012 basically for a number of reasons including some long-term trends but more specifically because of the poor handling of the Eurozone crisis on both filed argue on the EU level and by a number of national governments.

And since then, the trend of the US basically prevailing in this economic competition has only worsened. Over the last three to four years, the US has grown at the rate of two to three times faster than the European Union.

There has been a lot of discussion of what are the relative comparative advantages of the US and Europe. One comparative advantage that Europe for example often points to is the rule of law, generally is betting the majority of European Union countries on a number of indicators. There has been also an argument that education is--on average better and as a result, it can provide for better innovation and growth in this innovative sectors.

Which is why in my third chart, I've chosen to show you one of many possible charts on them where European innovation may be in the near future. This is basically a chart that looks at two of the four or five main ratings of top universities around the world.

To make the point and one of them intentionally is the Shanghai index or let's say, New True index not coming from either European or the US and the other one is the Financial Times index that broadly one can say is somewhat more friendly to Europeans. And one these two indices, you can basically see that if you account for the UK's superior performance in university education, if you take continental Europe, essentially, they are no top 50 universities.

The universities that appear on these rankings for continental Europe interestingly actually without exception what are called specialized university. So a medical university in Denmark is among them and other medical university in Germany is here. So in other words, if you think of university education and whether this response to Harvard, Cambridge, Stanford, London School of Economics and so on, intercontinental Europe, the answer is no.

Of course, this is just one piece of the necessarily puzzle on innovation but if you then look at statistics on shared research and development and GDP for example or high school completion rates, you'd be surprised to probably know that high school completion rates in the United States on average actually higher than completion rates in the average EU country. And there are a number of European Union countries particularly in the Southern part: Greece, Portugal, Spain, Italy, that high school completion rates are less than 50%. So, Greece for example, of the students that enter high school, only about 44% actually exit high school with a degree. The comparative statistics for the US is double, 88.3%.

The point of all this being that education, while there are some good universities in Europe and the high school education in a number of European countries is quite strong, the averages actually don't bold well for long-term competitiveness of Europe versus either parts of Asia or the United States.

So why am I making this, let's say, introduction, to make the point that to me, actually, the main consequence of the UK's decision of in or out of the EU is not actually immigration. It is a current issue. It's a topical issue but with or without the UK and the European Union, the European Union has basically started to think of a policy of immigration but I would argue it would change very little if the UK leaves.

However, in terms of the dynamics on economic growth and I'll show you my thoughts in a minute, the UK is staying in the EU can be very, very significant in actually attempting to recover or gain some lost economic growth.

And before entering into this second part of my discussion, let me also point out that this is not the reason to topic for the European Union. In the year 2000 in fact, there was an ambition to somehow right the many wrongs of European competitiveness or European political leaders met and came up with what is known as the Lisbon Agenda that basically said that in a decade, until the year 2010, which was done in the year 2000, on a number of indicators, the EU is going to perform vastly superior to the US. But in particular, in terms of the overall production basically, GDP that Europe would be growing substantially faster than the US.

Well, we know what happened, so if you fast-forward from the year 2000 to 2010, actually exactly the opposite happened. The European Union significantly lost competitiveness during this period, even not counting the effects of the Eurozone crisis towards the end of this period.

Surprisingly, the EU itself actually admitted that this was a failure and therefore has started thinking about new ways to address this lack of competitiveness and my main argument today is that without the UK in the European Union, basically none of what are relatively good, initiatives are likely to happen.

So let me point out for such areas where there has been -- especially in the last two years, two, two and a half years after the referendum started being a political issue not just in the UK but also across the European Union. There are four areas led by the UK, a coalition has formed within the EU countries to try and essentially complete some of the markets that in the views of both politicians but primarily economists are needed in order to basically see higher growth.

What is that coalition? It is led by the UK that's why a possible--however difficult to believe, exit will clearly have the negative consequences. The Nordic countries belong to it, Sweden, Denmark, Finland. On and off Germany joins depending on whether it's a hardcore economic agenda or it's a broad agenda. And then a number of these European countries, the countries that I know best. So, together, there are about 10, 11 countries that over the last few years have been very supportive of the various UK initiative, British initiatives to complete markets.

So these are the four markets that I will very briefly discuss. The first one incidentally is both very important for EU as a whole, but also for the UK. While as I mentioned, the immigration is politically the biggest issue, economically, the biggest issue for the UK for leaving is actually what would happen to the city of London, which accounts for two-thirds for example of European insurance about 60% of IPOs in Europe, more than half of investment baking and so on. So it’s quite important for Europe overall but it’s also very significant for the UK.

But the single capital markets project, which started with the Junker Commission about two years ago and in fact, the EU Commissioner for single capitalist market is Jonathan Hill, British national, basically started from several figures, which are as follows. So, if you look at capital markets in all of Europe, sum them up and compare to the US market. In terms of assets, it doesn’t look too bad. So basically, their listed assets are about let’s say 40% of the listed assets in the US.

If you look at turnover, not just assets but how often these assets are traded, then it becomes one to four, so basically, trading is about four times less in Europe than in the US. If you look at the IPOs or venture capital or together, basically, the investment or financing of new firms, then that ratio 1 to 4 gets to about 1 to 40. So essentially, there’s no IPO market nor venture capital market in Europe and there are many reasons for that, mostly regulatory reasons, the British government has argued forcefully over a number of years and therefore they would like to fix this.

And over the last nearly two years, there have been in fact many small steps but still significant in the overall picture of the European Union and European bureaucracy to go towards the single capital markets. If the UK were to leave, basically that would stop. There’s no other power or other constituency currently in the European Union that is in favor of this initiative.

The second such market is the digital market. In here, I should mention that it’s more with the Nordic countries and the Baltic countries, which are the leaders in pushing for new legislation and basically putting these markets together but without the backing of the UK, there’ll be very, very little progress. There has been some progress over the last year.

Energy market, this for me is most interesting because it’s perhaps the most relevant market from the point of view of the East Europeans, and here Poland, Bulgaria, and other East European countries, Slovakia lead the way in arguing that Europe should have a single energy market and vis-à-vis outside suppliers particularly Russia. On everyone’s mind, the European Union should actually bargain as a whole.

These attempts have been over the last, at least, decade hampered by the combination of Germany, France and Italy, various governments in Italy and France, and among the large European countries has been the UK but has been providing support for the East Europeans especially for going towards single energy market. That, however small, so far steps will in my mind also cease if the UK want to leave.

And the last market I would like to mention is the overall services market over the last year. There has been this fascinating study following in fact on the doing business methodology of the World Bank to basically just among the Eurozone countries, not even accounting for Eastern Europe to essentially have a similar package and for the postal services of the EU countries. Just ship it from one country to another and record what are the differences in price of the same package. And the difference is 1 to 12.

So basically, it turns out that in Portugal, it's the most expensive to ship for whatever reason even though it's not the richest country in the Eurozone. And in Germany, it's actually, at least for this type of basic packages, it's the cheapest and the ratio again is 1 to 12, very, very significant ratio.

This is one example of a services market deficiency, single market deficiency but there are many, many others that has been identified in a letter that about two years ago, David Cameron and his government send to the European Commission then the new Juncker Commission and said, "We would like to address each and every one of these points."

And again, over the course of the last year and a half, two years, there has been some substantial progress at least in measuring the inefficiencies or deficiencies of the single services market. I hope that this continues.

I'll finish with one number to have in mind. Now, this number comes from the European Commission so we can take it with a grain of salt. But essentially, it says that if completion and completion we understand is a long process but you need steps along the way, if the European Union manages to reach completion of just these four markets, and there are some other markets that relevant as well, the calculation of the Eurostat economy, this is the [inaudible 00:38:52] that one and a half percentage points to long-term European growth over a period of 15 years. That at first sounds like not so much but if you're riding 1.5, 2.7, basically, you're tripling European growth in the long-term.

I will leave you with this number in mind if the UK stays in the European Union. If it doesn't, essentially, we're subtracting the possibility of tripling European growth. Thank you.

Chad Bown: So I thought I would start by saying that, while I am easily the least British of all of my colleagues. I did spend 18 months of my life living in and around London including in 1992 during the Black Wednesday ERM crisis. So I have a little bit of personal skin in the game as well.

So what I thought I would talk about is contingency planning post-Brexit when it comes to the issue of trade policy. And so, before getting to thinking about the contingencies, I want to just start us off by clarifying some facts, three main issues in particular.

So, the UK is currently a member of the European Union, so that's important, yes. Equally important though is it's independently a member of the World Trade Organization and that's going to be important for determining the starting point if Brexit actually happens, what trading policies it would have to adapt. So we'll keep that in mind.

What together those items imply are that on tariffs, on internal EU trade, UK exports to the continent, imports from the continent, there's zero tariffs, free trade within or between the UK and the continent. For non-tariff barriers within the continent, within the continent and the UK, there's a process in place to try to get those reduced over time. We heard Simeon talk about that a little bit in certain markets.

There's the European parliament, the commission that is in charge of sort of legislating new rules for standards and attempts to harmonize reduced barriers internally. But also, the European Court of Justice that's there to step in when one country imposes a product, standard or something that basically serves as a protectionist, non-tariff barrier to trade, the European Court of Justice steps in and strikes that down. So that's an important ongoing process by which non-tariff barriers within the European Union are continually being dismantled.

When it comes to the UK's relationship with the rest of the world, as a member of the WTO independently, unless there is some special arrangement that the EU has with a particular trading partner through an FTA, what governs the tariffs that get applied is just the WTO tariffs, the most-favored-nation tariffs that they have to apply to all of their WTO members.

Now, the EU itself does have a number of prominent other Free Trade Agreements currently on the books and in existence with major countries, Korea, Mexico, obviously Norway, Switzerland, et cetera. So there's the report.

So that's the first fact, implications of the UK being a member of the WTO and part currently of the EU.

Second is when it comes to trade flows, geography still matters. Geographic proximity, how far you are from other major trading countries is important and that's a basic economic tenet that we just can't get away from when it comes to thinking about the impact of trade policy.

Roughly, 50% of UK exports go to the continent. That's fallen a bit over the last couple of years but the for the foreseeable future because of geography, UK trade is going to be intertwined with what's going on with Europe and there's no way really to get around that.

Third finally, the UK itself right now is starting from a position of relatively low tariffs. They did apply towards imports from the rest of the world. They're about 5.5% and this is just an important point to come back to, and those are bound under the WTO. They can't unilaterally just go off if Brexit happens and decide to raise tariffs against the 150 something other countries out there that are in the WTO. It's taken on legal commitments, not to do so and those are important. It's applied. Bound tariffs are about 5.5%.

So those are the facts where we're starting from. What I'm going to work through in my discussion here is basically the two options, two sets of contingency planning. What happens if there's a leave vote or what happens if there's a stay vote?

So let's start with the leave vote because that requires a lot more thinking. And I'm on board with what my colleagues have said but this in and of itself has provided a useful exercise to try to think about all of the different arrangements that are out there, why we currently have these things, which ones are good, which ones are bad and maybe allow us to rethink some of these things. So this is an interesting exercise in and of itself.

Now, suppose the UK exits the EU, what are its options? There's mainly two but let's talk about the first one, which is it could just unilaterally decide to pursue trade liberalization. Cut all of its tariffs to zero. And this sounds great actually, relative to the different options that I'll talk about next. This sounds very attractive for its simplicity. Cut all tariffs to zero unilaterally. I don't have to go out and negotiate again with Europe, the United States, any new trade agreements that are cumbersome. Life is simple.

So first of all, that's historically unprecedented, so it's unlikely to happen perhaps for that reason. But even if we're just thinking about this from sort of a standard economic perspective, why is this unlikely to arise, the first is it's highly unlikely that there aren't domestic political economy influences within the UK that would ask for tariff protection if granted the opportunity and now unencumbered by the European Union.

I can think of one right now, which is steel. The United Kingdom steel industry is suffering. It would like to be protected from imports from China certainly but from the rest of the world. It's hard to imagine that they wouldn't put up a fight if the request would put forth to just cut tariffs unilaterally to zero.

The second is with the low tariffs on average that the UK currently has in existence, it's not also clear from an economic perspective that it would be in its unilateral interest to just cut them. The standard economic research literature out there right now has shown that countries with relatively low tariffs that are sizable and imports of certain products may actually be enjoying gains because they have a little bit of market power with those tariffs. And unilaterally liberalizing could actually make them slightly worse off.

But this is to say it's a politically -- I would say, It's a simplistic approach that is beneficial for its simplicity but in terms of the economic rationality, it's not there.

The third perhaps and most important point, and we'll come back to this one again and again, is unilateral liberalization on tariffs really misses the point. The issue of engagement with the rest of the world right now in trade negotiations are really no longer about negotiating over tariffs. It's negotiating about all of the other stuff, the product regulations, the workplace conditions, environmental standards, the animal health and human safety for products.

You can't unilaterally determine those for your own country without engaging with the rest of the world. These are the difficult issues that require harmonization and compromising coordination of regulatory policies across countries. So the UK just decided to go at it alone and ignore the rest of the world, would just turn out not to be productive in this area.

So then there's the second option, which is to independently figure out what their trade policy would be going forward. And again, this is much more interesting and exciting, so let's walk through some of the important cases or issues to consider.

Again, 50% of the UK's trade roughly occurs with the European Union. So the first thing it would need to do is to figure out what's going to be its future trade policy relationship with the continent that, again, it's now and/or are contingency planning, it's left.

There's a number of models out there, so countries--there are high-income countries within Europe but that aren't members of the European Union that have signed Free Trade Agreements: Norway, Switzerland or even Turkey, which has a customs union with the European Union and is basically ceded all of its trade policy decision to Brussels.

So, how about one of those options? Well, the UK could pursue one of those. In the case of Norway or Switzerland, what ends up happening under those scenarios is they're not free. Norway and Switzerland both send sizable fiscal transfers to Brussels for the right to export to the European market each year. And so, that would presumably also apply to the UK, so there wouldn't be a huge cost saving from exiting the EU from that perspective.

And the second and more importantly in order to have the right in Norway and Switzerland to be able to export to the European Union, they basically have to adapt lock, stock and barrel most all of the regulations that come out of Brussels without being able to implement them. The difference with the UK right now is it is a part of the European Union and it does have a chance to influence them. It is an equal partner in the Brussels process, in the legislative process, in the judicial process. That would change significantly obviously if it were to exit.

All right, what about its existing FTA partners again? Some of its major bilateral trade occurs with countries like Korea, Switzerland, countries which the EU has a Free Trade Agreement, what would the UK's post-Brexit trade relations with those countries look like? I would argue that this hasn't really been discussed too much even amongst the trade policy blocs thinking about this area. But mainly, it's not clearly what would happen. It's not clear that the FTAs that EU has negotiated with these countries would automatically apply and what we have observed in the trade realm is that what typically happens is countries do what they want, they try to get away with it and then we end up having litigation about it at the WTO.

So I would submit that we won't know what the relationship is. You could imagine Switzerland for example or Norway saying, "Well, we agree to these general terms with the EU as an FTA partner but if we're going to have a separate FTA with the UK, we don't want to have the same exact terms that we adapted when we sign this thing with the EU. We'd like to renegotiate a little bit." So that's going to take a while to play out as well.

Third, what's going to happen with the UK's relationship with other major high-income countries, US, Japan, Canada, et cetera? Let's focus on United States and we all know from the President's visits to London a couple of weeks ago where he said quite clearly that any trade agreement that these high-income countries are talking about, negotiating, potentially implementing this a "heavy lift". And, any UK-US trade deal that would potentially happen down the line would involve the UK having to get at the end of the queue. The US has the TTIP negotiations, the TPP negotiations or agreement that we're trying to get ratified and implemented by the Congress. The idea of thinking about a major new agreement with a high-income country would really not take precedent.

And then finally, what are the UK's potentials for negotiating new FTAs with the major emerging market economies out there? India, China, Brazil -- again, it's not clear to me that these countries that have not negotiated Free Trade Agreements with rich countries yet and they knew if they were to do so, they would have to sign on to all of the non-trade baggage that goes with it, all of the regulatory issues, environment, labor standards, product standards. It's not clear that the first step that they would take and pushing forward once they decide to do so would be with the relatively smaller market of the UK, more like that they would want to head towards something, if not multilaterally under the WTO hospices with a major economy, Europe more generally or the United States.

That's just down the renegotiations of the trade agreement deals. The separate issue that also hasn't been talking about is if all of a sudden the UK has to implement its own trade policy, there's a day-to-day operation of trade policy that are separate from the negotiations. It would have to develop again its own trade remedies or in European parliaments trade defense procedures they'd end up countervailing to these safeguards. It would have to monitor all other countries' trade agreements independently no longer with the EU. It would have to litigate its own disputes at the WTO independently or under its own FTAs and not relying on the EU anymore.

And this last issue, I think it's notable, I just looked at the data, United States, the special relationship that we have with the UK. We just initiated our first anti-dumping cases against the UK in over 15 years, on steel. Obviously, the UK is probably not going to be happy about that. There could be disputes but if as part of the EU, it would be able to rely on that.

So, what will happen to the US-EU ongoing TTIP negotiations in the case of Brexit? I think that changing of the coalitions is important as Simeon mentioned. The UK is an important liberalizing force within Europe. If it leaves, will that substantially alter the coalitions within Europe and change the deal that the United States would be able to negotiate with Europe? Arguably, possibly so. And I think that's important for us to think about.

If things stay, what are the implications there? Well, I would say that there's a number to think through TTIP, deals with Japan, implementing to Canada-WTO negotiations. But I think the main issue here and I'll conclude on this is the substantial resolution of all the uncertainty that's basically been holding back what the definition of Europe was going to be. What the borders of the European Union we're going to be pushing forward?

Once that's resolved, I would think and hope that we could then use that resolution of the uncertainty to be able to push forward in a lot of these other trade agreement negotiations that had been being held up over the last few years. And with that, I'll stop. Thanks.

Adam Posen: Thank you Chad, thank you Simeon and Jacob. Before we gather the group and open up to your questions and comments, I'm just going to raise one other issue that I think needs to be considered. The question of Britain as a world financial center or more accurately the city of London, famously or some of us would say infamously 20 years ago when there was the discussion in the UK over whether or not the UK would join the Euro, Gordon Brown set out five tests. And one of those tests was would it be good for the city of London? And while one could argue and in fact, I would argue that what's good for the city of London is not necessarily good for the UK as has been demonstrated over the last 10 years.

The both sides in the Brexit debate use what would be good for the city of London as a major argument on each of their sides. So, it is the exit people who say, "Well then, we'll no longer be fettered by these European regulations. We'll be more independent. We'd compete more and besides, we're reaching out to China now. We're going to become the offshore remnant re-trading center. This is great and all the hedge funds will want to come home anyway."

And, the remain side says, “No, no, no, no, this will cause instability. This might cause punitive reactions from the Euro area. We will lose--,” and our colleague Nicolas Véron, who couldn’t be with us today emphasizes this particular point. We will lose our standing as the beachhead for investment banking and commercial banking in Europe, well, that’s not the entirety of London’s business. It’s probably a third and so this is a very big loss if we cease to be part of that.

What I’m going to emphasize and you see this on both sides. So, what I’m going to emphasize in thinking about this over the long-term is to make three points. First, the fact that both sides of this debate are taking trying to get the city of London the advantages for the city of London were at large on their side at it were is a statement of how little the UK has come to reckon with the fact that this enormous overweighting of the city of London in UK GDP is very dangerous. And either way, this is not a good foot line for Britain to be on.

My former colleague, now Lord, Mervyn Lord King, former governor of the Bank of England, at times while Bank of England governor spoke about this and I’ll expand a bit on that. I’ve come to agree with some of his points as well as my own.

Second, even despite that, a UK city of London that remains in the EU is likely to be a better regulated one and is likely to reap advantages should the EU move towards capital market union banking union in a real and meaningful form. We cannot guarantee that that will happen. Again, our colleague, Nicolas Véron, has written lively about this. But it is an option that is entirely positive. This is parallel in some ways to some of the issues that Simeon raised in other areas. That option is only there if they stay in.

Third and most importantly I think, I am very concerned that -- in either track the UK goes down the path of trying to be a financial center through lowering global standards, so becoming more and more an offshore center in the phrase. And my concern is that for both the UK and the world, were they to exit the EU, they would do this even more desperately, even more irresponsibly and it would be a serious negative effect on the global financial system.

So let me just recap those points.

Let’s not pretend finance is special for the moment. As I’ve said in the past, every country has its fetish economy. In Japan, it’s rice. In Germany, it’s autos. In the US, it’s MTV and reality TV productions. I mean, fetish in two sense is they’re obviously. And for the UK, it’s banking and it’s not entirely stupid because of course, the UK has been the leading financial center in the world or one of the leading financial centers in the world for hundreds of years.

But, by the same token, this relates to some work Caroline Freund and other trade scholars have done. Every country is good at something. We shouldn’t mistake the fact that the UK for historical, geographic, cumulative reasons has become good at financial services means that this is something fabulous, this is something inherently wonderful that it can grow infinitely.

And even more so, if you go back to the idea that finance is special in the sense that if you have a banking system that blows up that's headquartered in your territory, it cost you. Then, in some ways, it's a worst loser to put all your chips on banking than on autos or on cultural exports.

More over and this is where I cite Lord King, we have seen a huge problem in the UK for years that went on in the '70s, it's been recurring through the decades. You can go back to a McMillan Commission following World War I that you have an unbalanced economy, that so much of the wealth, so much of the political efforts, so much of the lobbying is centered on London. And it is increasingly a traded good, export of financial services. But it is something that tends to distort the economy. So you have huge gaps between real estate prices in London and the Southeast and the rest of the economy. Huge pulling of talent from the rest of the economy to their huge biases against the exporting other parts of the economy and their overvaluation arguably much of the time with pound.

Again, that's going to happen anytime you have an urban center. But the extent to which the UK is distorted in this fashion and is vulnerable as a result. And that domestic industry of other kinds does not get kind of financing it needs, does not get the attention and talent it needs is extreme. And this is part of the reason until recently the UK had recurring current account crises, not the only reason but part.

And I was very horrified a couple years ago, I hope he's changed his mind on this because he does change his mind on things, well now, Bank of England Governor Carney said he would be perfectly happy if the combined balance sheets of UK headquarter banks were even 900% of GDP. He said that at the Mansion House speech published on the front page of the Financial Times roughly two years ago.

Iceland for one, shows you that's not necessarily a good idea and yet the UK continues down that path. So this is a general problem to UK. But let us say -- I'm not going to bother with the second point which I think is quite straightforward that they have an option. If there's deeper financial integration and resolution in Europe that they will have a much better option to be part of that to shape that and to take advantage of it if they're in and if they're out. It might even be a zero to one option but let's leave that aside.

What happens in the case of Brexit? Well, both sides have largely said that they do want to become a more offshore center. Some of them say, "We love the UK to become like Singapore." In fact, I've had people argue with me, "Singapore can make it. Why can't we?" Well, without wanting to point out that Nigel Farage is probably not Lee Kuan Yew. Leaving that aside, there is a genuine issue that if you're a country of 60 million people, not all of whom can be employed in financial services that you really want to go that route. Moreover and more importantly, even Singapore doesn't have the golden ticket because it does financial services. In many ways, it's a double-edged sword for them. It is a wonderful thing and they will probably continue to outcompete many of the other Asian financial centers especially if China interferes but that doesn't mean that that's the viable secret ticket to growth.

As I said though, I think the most important thing is to what extent does a Brexit combined with an overreliance on financial services lead to a raise to the bottom by UK regulators, supervisors and financial services. There will be an incentive for them to say, "Oh my god, yeah, we really need the Chinese here and we really need to be the R&B clearing house."

As has been pointed out, I think somewhat excessively but fairly, you look at the Panama papers, there are an awful lot of British territories and companies that are promoting that kind of tax evasion. You look at the role of Jersey, Isle of Man, some of the other British territories as a way to doing this. If you're outside the EU, why not bring it home, why not directly do it through London.

There are periods where the UK became the dominant financial center in the world by getting it right in terms of deregulating versus the rest. I mean, we can all think back to the original euro-dollar markets in the '70s. The US was massively overregulated. The UK was innovative. It was right to do that. But even in that, we all know that that led to a great deal of capital flows in and out of the UK, a great deal of regulatory arbitrage, a lot of adjustment and that was with the UK simply moving to a better standard to other people.

What happens to the UK economy? What happens to the world capital flows if the UK moves towards it? If the UK says, "Well, we're not part of this, we just want to be the world's banker and we're going to go all out." We can go into more detail but I think that's a very real threat to UK livelihood and to global financial stability that you're not just going to have AIG Financial Products and you're not just going to have a lot of people from places that have nasty billionaires putting their money in real estate. It's going to be even more--we want to be the home for that. This is our comparative advantage. This is how we go.

Now, may well be that the European Union, the US, the FSP, for that matter may well be in the self-interest to the global financial industry to wisely say, "We don't want to be part of this race to the bottom. We're going to move headquarters out of London. We're going to reduce our London exposure." That might actually be the outcome and that would not be a terrible outcome for the world but it would not be a good path for the UK having bet so much on this, and then you would still have the UK as a small Bermuda style hole in the financial safety net.

The worst-case scenario of course is that that transition is never complete or clear and we just have a regulatory arbitrage hole in the UK. And the UK has further doubled down on an industry that that its core should be part of the UK, they should be proud of, should be competitive but is not to be relied upon and should not be done as a race to the bottom.

So to me, that is an angle of Brexit thinking long-term that we have to consider as well. Thank you very much.

If I could ask my colleagues to come up here and we'll turn it over to discussion.

Do any of our speakers want to add something or can we turn it over to the audience? Please.

As usual, we have just go with the traveling mic, can reach people at the front tables. We encourage people towards the back to stand up at the standing mic. When recognized, please feel free to ask a question. You can even state an opinion but it has to be brief and please identify who you are when you speak. Who would like to go first? Anyone? These guys will talk if I let them. No one has a question? Please.

Chi Hang Jung: Hi, Posen. My name is Chi Hang Jung from Xinhua News Agency. I just have a question with that because The Fed has said that the Brexit is one of the great risk for US economy whether it will raise interest rate or not. So, I want to know that what kind of risk is posed to the US economy and also as to the emerging economies like China? Thank you.

Adam Posen: I mean, I don't know if my colleagues want to come in but I guess if it's Fed, it's my stuff. I'll be honest. As much as I love the UK, I have trouble fully understanding why some of the major economies think this is a systemic risk. I'm much more concerned about many of the long-term issues, the kinds of growth, things Simeon talk about Jacob's ongoing political issues out of immigration, Chad thinks about the trading system.

I think to be fair to The Fed, they have I think a few things in mind. First is this is not helpful. It may not be disastrous but it certainly isn't helpful and it could cause a great deal of uncertainty about investment flows and monetary policy and exchange rates vis-à-vis the Euro area and the Euro area is a major pole of global growth. And the currency balance we currently have between de facto between the dollar, the renminbi, the Japanese yen, euro could be significantly disrupted. I think that's a key part of it.

I think there's another part of it again. Chairman Yellen has not said this but I think it's reasonable just to say it doesn't really matter that much whether we raise rates in June or July. And so, why raise rates and ignore this, we might as well see how it works out. So, again, I'm not trying to be dismissive it but I think it's a little bit of excess language to go with reasonable caution.

In terms of the spillovers for the rest of the world, again, unless when it tells a story of significant disruption to Euro area policy or the Euro area exchange rate, it's hard to see how this has a large effect on emerging markets. As Chad pointed to this data, as somebody pointed out--as--it wasn't me but I quoted it at the time. I forget who it was.

Prime Minister Cameron made a statement at one point in the spirit of what I was worried about saying, "Well, this doesn't really matter what happened with the EU." This is pre-Brexit. This is a couple years ago. We're going to reorient to trade with the Brits and somebody pointed out that the total trade as a percent of GDP, Britain had that that's three years ago, four years ago, with the Brits was equal to their trade with Ireland. I mean, this goes to Chad's point about the geography.

And so, we can tell the story that if markets are really fragile or something happens to exchange rates had helped, it hurts other people but you really have to assume some kind of financial panic beyond the obvious to have it matter to a China or an emerging market in my opinion.

Please.

Shaun Donnelly: Thanks. I'm Shaun Donnelly from the US Council for International Business. I wonder if anyone on the panel would be prepared to speculate a little more what happens if the vote is to leave? How does the EU react? Does it spark any other countries within the Union to think about it? Does it cause the Europeans to think about their fundamental policies? How hostile is Europe toward the UK? What would the first couple years after a British exit look like?

Adam Posen: I'm going to ask both Jacob and Simeon to comment on that, please.

Jacob Kirkegaard: Well, I mean, I think the first issue there is what is the UK going to do. I think the Europeans are going to see to what basically -- what David Cameron first step, he said he's going to apply to leave the EU under Article 50 of the European Treaty, which is a two-year period, after which the treaties and the EU laws ceases to exist or ceases to be applicable to the UK. So they will be out of the EU completely after two years. You can extend that but that requires a unanimity, which I don't believe will be forthcoming.

I generally take the view that this will not be an amicable divorce. It will be highly, highly contentious. Indeed, I would argue that the probability of punitive political actions by the rest of the EU against the UK is a very strong base case in my opinion because the reality is that every other EU leader has a party similar to UKIP and the Euro-skeptic wing of the Tory party at home. Actual Brexit will sit a president that a country can leave. This will encourage these types of parties in other countries. And the only way that they can try to stem that is by making it very, very, very painful for the UK to leave and I have no doubt that they will do that.

So the idea that there will be some sort of business as usual, pragmatism is ruling this and that will be tried to make it as smooth as possible in my opinion, it absolutely do not apply and very much the opposite.

Simeon Djankov: I also think that Europe will be quite pissed if this were to happen and will make it in every way possible very unpleasant for the UK. Not just because of the implications that we've already discussed but it's been a tough nearly decade for Europe and lots of European leaders have gone out and said very nice things about the British people and government, and how important they are to Europe even though that doesn't sell well in their home countries. So if this were to happen, I'm sure that it's going to be very, very nasty.

In terms of whether this is likely to bring other countries to follow, I think actually some of the central European countries would be next on the referent idea. Poland for example. It has an anti or let's say euro-skeptic government. There is a big issue, which is coal, which is very important for the country, and the European policies currently go against it. So I can imagine this Polish government saying, "Well, we'll try as well. See what we get back from the European Union but a referendum may be a good idea."

Adam Posen: If I can just piggyback two points, first is just picking up on what both Simeon and Jacob said. If you think about that that will price in some sort of ongoing risk premia, breakup risk premia into European bonds and European financial markets, how big would depend the developments, but it's back.

Second, just linking response to you to the gentleman from Xinhua I gave a very short-term response, which was your question as I took it but the point of this event is a long-term. And so, Shaun, where I think this all comes together picking up on Jacob is you have to draw the line in the sand somewhere if you're going to fight for global integration and fight for liberalism and fight against nationalism. As Jacob has said, as I and others have said, legally, sure, of course, the UK can decide to do this but it represents mostly a very nasty negative view of the world. And, what happens to emerging markets if we continue to build momentum in the rich world that immigrants are bad, poor people are bad, trade with poor people is scary, people don't look like me are scary, as we're already seeing with politics in the US, that's not a good thing for relations with the rest of the world.

And so, without trying to be too cosmic, I think if we have the kind of squabble, UK and rest of EU that Simeon and Jacob I think are right to put out there, then it just feeds that narrative, that politics and that's not good for China or for the rest of the world either.

Marcus Noland: Marcus Noland, Peterson Institute. I have a two-part question, first part for Adam, second part of Jacob. Adam, you mentioned that roughly one-third of the city's business is essentially bridgehead business for the continent. So, under Brexit, first of all, what share of British GDP is that? And secondly under Brexit, how much of that might be expected to decamp for Dublin?

The second part of the question is for Jacob. Per capita incomes in Republic of Ireland are already higher than in Northern Ireland. If the Republic of Ireland experiences this positive economic shock of the relocation of financial services from London to Dublin, how might the fact that the Irish economy is doing well and the British economy is mired in the uncertainty that you guys described. How might that affect sentiment in Northern Ireland about state remaining part of the UK as opposed to joining the rest of Ireland?

Adam Posen: Thank you Marc and I'm glad you picked up on it because I thought Jacob's point about the Northern Ireland border is really important to think about. So again, one-third is a rough number for the amount of the bridgehead. How much of that would they lose? I mean, there's a certain amount of it that it's due to the talent in London and certain other advantages that would not go away. But you're absolutely right to the extent it goes away, it goes away very quickly to Dublin and possibly Amsterdam. It doesn't go despite certain people's fantasies to Frankfurt or Paris and it's very easy to move to Dublin. People could even keep their homes and commute to Dublin on EasyJet and Ryanair.

So, it could move much faster than people think. I mean, its English-speaking, it's great infrastructure, the Irish government would be licking its chops at this. You could see a lot and it would disproportionately to the degree, it doesn't go to New York or go outside the system. It would disproportionately probably go to Dublin.

Jacob Kirkegaard: No, I mean, I think this is one of the centrifugal forces inside the UK that a Brexit would unleash because if you look at the polling right now in Northern Ireland, it's quite sporadic, admittedly. But it's very clear that among the Catholic population of Northern Ireland, there is an overwhelming majority to stay whereas the Protestants is sort of split half-half. Ultimately, that of course means that there will in Northern Ireland be a significant, a majority to stay.

And combining that with the fact that any kind of sort of UK redistribution towards Northern Ireland, which certainly also exists today which will be much more difficult to finance going forward so there's that wealth gap between the two parts of Ireland is likely therefore to be exacerbated. No, I think this is absolutely going to come to the fore. The real question to me is whether or not it's going to come forth in the kind of nonviolent democratic way that we have seen it in Scotland or the much darker scenario of course is that we see some kind of reincarnation of the period between the early 1970s to the mid-1990s. I think that actually is the more pertinent question on Northern Ireland.

Adam Posen: We're about to close. But I'd like to ask Chad if you could make one clarification. You spoke about the idea that Switzerland, Norway pay money to the EU to get the rights and that the UK would then be back to where it was without if it followed the FTA model. There's a point, which people sometimes have lack of clarity because of course, the US doesn't pay directly to the EU for the right to export to EU countries. So, can you explain just briefly what does that mean?

What does it that the Norway and the Swiss are getting that the US doesn't for their money and how big is that?

Chad Bown: Thanks. So, one way to think of it is getting access to the market and basically adopting the European regulations and standards relieves domestic regulators within Switzerland, within Norway from having to do all of the due diligence and regulatory work that would be necessary to do the Science on what the safe children's toys standards would be your chemicals in food and those kinds of things.

And so, that's basically what they're doing. They're outsourcing a piece of that function to not having to do it themselves. They're also giving up obviously, a lot mostly, all of the political ability to deviate from the European Union standards and those products. But in exchange for that, they then have to pay Brussels a fiscal transfer in order to be able to export into the European market. And this is different from kind of standard Free Trade Agreements that exists like we have not only with other high-income countries but NAFTA, this doesn't exist. These are special arrangements that the European Union has negotiated in particular with these high-income countries of the rest of the continent.

Adam Posen: Chad, I'm sorry to push you on this. But you used the phrase in order to export into the UK market. American toys do get exported into the UK. So, is it really just that they're saving money on regulatory burden or what's really the difference?

Chad Bown: Well, sorry, so US toys get exported into the European Union market but they still have to pay a tariff or I don't know specifically what the tariff rate for toys would be but suppose it's 5%. Within the Free Trade Agreement countries that the EU has deals with, so Norway and Switzerland, they get a zero tariff, so they get a cost-saving relative to US exporters. But in exchange for that, they have to pay a fiscal transfer and that's different. It's conceivable that if we were to negotiate under TTIP, a deal with Europe that we could have to pay fiscal transfers to the European Union as well, I would doubt it.

The US would probably get a better deal than Switzerland or Norway would get. Maybe they would pay money to us. But this is the deal that Switzerland and Norway have struck, partly, arguably because those are two very high-income countries. And so Switzerland has a very rich population in banking sector and financial services. And Norway, is very rich for minerals and so part of the European Union has been able to extract deals from them to be able to allow those countries to export into the EU market that they probably wouldn't ask for from other countries as well but they probably also wouldn't be able to extract from larger countries.

Jacob Kirkegaard: No, I mean, I would just highlight the last part there that there is a degree of rent seeking by the rest of the EU here on Norway and Switzerland in particular for the ability to export without tariffs or other non-tariff barriers into the internal market. Because we should remember that one of the things they actually pay for is to be protected by, as Chad said, the European Court of Justice. If say the Germans or the French were to impose some sort of non-tariff barriers against Swiss product coming to their countries. They could go to the European Court of Justice and have it struck down even though the version of it that deals with EEA cases, so they are protected by EU law in that regard and that's part of the privilege that they pay for.

But I think it's also important on the broader issues of what would the UK have to pay. What would they save from leaving the EU in all probability for the reason that Chad mentioned probably not very much because we should also remember that any new agreement that the UK would be dealing or negotiating with the EU, they certainly wouldn't be getting the kind of rebate that Margaret Thatcher secured them on regular EU budget contributions back in the 1980s. So the fiscal argument that is often brought to bear here in the UK debate is probably largely bogus.

Adam Posen: I just will add because between Chad and Jacob, they brought up a specific. They mentioned the idea of the European Court of Justice. Well, this applies in financial services as well. The ECB for a while had started a location policy, which was to force clearing houses to move their euro-denominated operations from London to the Euro area. And in March 2015, the European Court of Justice ruled that was illegal. It was unfair to the UK as a member of the single market. And if the UK -- it's a very specific clear example. If the UK was no longer a member of the single market, the ECJ would have had no reason to rule that way and that stuff--the Euro area could just say, "Okay, anything you want to do in euros, you have to do in the European financial center."