

# Punishing Britain with a tough Brexit will harm everyone

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*The mood against Britain in Europe is hardening, with French president François Hollande calling for a tough Brexit to deter other states from leaving. But, argues **Stefan Kooths**, this is an enormous mistake. The uncertainty will harm everyone involved in negotiations. If Britons are to be convinced of the EU's benefits – and perhaps one day decide to rejoin – we should keep as many bridges as possible between the UK and the EU. That probably means giving up the principle of freedom of movement of labour.*



Reconfiguring the relationship between the UK and the EU is a complex undertaking. Delays, procrastination and uncertainty are bad for both sides. We need a rapid decision on the fundamental issues at stake – and a decision by the EU to behave as constructively as possible toward the UK would be hugely beneficial.

It would send out a positive signal and lift a large part of the uncertainty long before the negotiations are concluded. Economic concerns are not the only reason to adopt this strategy. It would also benefit EU stability, which over the long term can only be built on the genuine advantages of belonging to the club, rather than on a belligerent great-power policy. Lastly, as many economic bridges across the English Channel as possible should be retained so that the next generation of Britons may find their way back to the EU.

It would reflect very badly on the EU if it sought to punish the UK in order to deter other countries from leaving. A club's appeal lies in its ability to provide members with opportunities that, by their very nature, can only be achieved collectively. Threatening members who want to leave with tough sanctions doesn't fit that description. The more intently the EU focuses on genuine Union-wide collective assets, the clearer the benefits of membership become. As a cornerstone of the EU's architecture, the principle of subsidiarity (Article 5 (3) of the Treaty on EU) directly serves this end. It stabilises the Community, by avoiding the (otherwise correct) impression that matters that could be dealt with equally well or better at the national level are decided in Brussels. It's time to stop vilifying those who insist on observing the principle of subsidiarity by describing them as "anti-Europe". Rather than being a braking mechanism deployed by Eurosceptics, subsidiarity is a tried-and-tested method of stabilising vertically structured polities.



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The British government's plans to restrict the freedom of movement of labour for EU citizens without giving up access to the single market for goods and capital has been widely criticised as “cherry-picking”. This view is popular, but wrong. It does the notion of integration a disservice: depicting the free movement of goods and capital as “cherries”, with the free movement of labour as the bitter pill to be swallowed in return, will increase resentment of economic migrants. In any case, from an economic standpoint there is no compelling link between free access to the labour market and the rest of the single market.

### **Free trade is not a bargaining chip. It's in everyone's interests**

The idea that free trade is a “cherry” also provides a deep insight into an attitude that is still infected with mercantilist fallacies. Free trade is not a concession; it is in everyone's common interest. Just because the EU is relatively more important as a trading partner for the UK than vice versa does not change that fact. The argument that the EU-27 should give the British a good deal because they (the EU-27) run an export surplus with the UK is similarly flawed. This again reveals mercantilist thinking, which inevitably – and needlessly – foments international conflict. The benefits of trade cannot be measured by looking at export surpluses because the flows of trade in both directions are advantageous for all those involved. In addition, the free movement of capital enables trade flows to take place at different times, which creates a further advantage – again, for all the parties involved.

Important as it is to eliminate trade barriers within the EU single market, the benefits of the free exchange of goods and services do not stop at the EU's external border. The internal perspective should not blind us to what the rest of the world has to offer. Unfortunately, this kind of emancipated openness to the world is not much in evidence in the EU. While free trade within the single market is now largely beyond dispute, free trade with the rest of the world is still regarded with suspicion on many sides. This provides fertile ground for vested protectionist interests.

Obvious examples include the EU's agricultural policy and the widespread resistance to new free trade agreements. And while the European Commission has rightly cracked down on the industrial policies of individual member states which favour “national champions”, the advocacy of “European champions” is still common practice. Opening up markets to boost competition would be the right general policy – also at the EU level – rather than using industrial policy to protect individual industries. All too often, mercantilist thinking ultimately prejudices the EU's own external relations. That is precisely what is at risk of backfiring now on the participants in the Brexit process.

Viewing free market access as a privilege in order to use it as a knockout bargaining chip would represent crude

big-power policies and harm everyone. Free access to the single market for goods, services and capital does, of course, require acceptance of the rules of non-discrimination. These rules apply to all players regardless of their nationality. Having a say on these rules is a genuine club benefit of EU membership. For that reason alone, the UK is already accepting a high price for exiting, as will become apparent over time. Any appearance of imposing additional penalties would belittle the EU by unnecessarily ignoring the true value of its club assets.

When the EU Commission performed a U-turn shortly after the Brexit vote by declaring the CETA trade deal with Canada a “mixed” agreement, it further reduced the value of club membership. Since this means all the national parliaments and even some regional parliaments now need to be involved, the chances of a successful outcome for CETA are likely to be markedly lower. The decision also makes the EU less attractive as a negotiating partner for other regions of the world. As a result, an established EU competence – which could otherwise have been leveraged to open up international markets – is diminished. The CETA decision, which was presumably intended to appease forces critical of the EU, also dilutes the principle of subsidiarity. In this case, however, it does so in the reverse direction because it undermines EU foreign trade policy as a core function of an economic union. As such, it again exposes general trade rules to the influence of nationalist and protectionist interests.

## **Trade brought the EU together, and trade could rescue it**

Viewing the EU as weak as long as it “only” promotes trade is to misunderstand the major role played by economic relations in peaceful development. It was no coincidence that an economic route was used to achieve internal pacification of the free, Western part of the European continent after 1945 (in the forerunners of the EU and in EFTA). The reasons that made it the right approach back then apply equally today. Through economic interaction – i.e. multifarious exchange processes – people come to view their business partner as a promoter of their own wellbeing. Exchange is always voluntary since it only comes about if both sides regard it as beneficial. In hardly any other form of human interaction is the reward for collaboration as conspicuous as it is in trade; there is a reason why we talk about “trading partners” rather than “trading opponents”. For the same reason, both parties invariably thank each other after concluding a deal.

As a result, free trade provides a profoundly pacifying basis for human coexistence across national borders. Ultimately, it gives rise to peaceful societies comprising networks made up of a huge number of individual relationships. Social cohesion is not something that can be ordained from above; it is the product of an evolutionary process. Free economic exchange is the best basis for this process, because the shared benefits bring people together and create lasting connections. The consensuses that emerge over time facilitate the creation of formal institutions, which provide a shortcut to reducing transaction costs. These institutions must follow the consensus, though, and not vice versa.

However, if free economic exchange is blocked for any significant period of time, pricing and production structures become aligned with this reality. These include – not least – labour markets and wage structures. Despite the general deadweight loss, benefits for the winners of protectionism flourish in the shadow of customs and migration barriers. For them, a sudden transition to free forms of economic activity has a disruptive effect because their protected positions in terms of markets and income are eroded virtually overnight. As a result, this kind of ad hoc liberalisation can trigger massive intra-state conflicts that last for many years, in addition to enabling new forms of cross-border collaboration. This is not caused by the free market, however, but by the obstacles that preceded it.

Like a dam wall, the barriers to free economic activity have impeded what would otherwise have been a gradual process of adjustment. If the dam then bursts, there is usually too little time for the parties involved to adapt to the new conditions. Winners and losers are dragged into a struggle for distribution that acts as the final social poison emitted by the mouldering corpse of protectionism. Accordingly, the speed of transition to a free common market can play a role in determining the degree of broad acceptance among the public.

By creating the EU, the member states have established an entity through which they can safeguard their shared

common interests. Important common interests are expressed in the four basic freedoms of the internal market. This also applies to the freedom of movement of people. It is an abstract advantage for every citizen of a member state to be able to freely choose where to work within the EU – and only abstract advantages of this kind can establish a common interest. The specific exercise of this freedom of choice is bound to change scarcity relationships, otherwise there would be no benefits attached to wider choice. This also means, however, that there may be winners and losers, despite the anonymous net advantage. If the core consensus in a member state is not strong enough to accept these effects or ensure that they are mitigated by way of compensation payments, the above-mentioned post-protectionist tensions spill over into the political arena.

In the case of the UK, support for Brexit appears to have been strongest among those who regard themselves – rightly or wrongly – as losers when it comes to the free movement of labour, either through higher housing prices or lower wages. This vote suggests it would be a mistake to seek to negotiate free movement of labour at all costs. Such an attempt would merely result in a less mutually beneficial outcome than would otherwise be possible. If, on the other hand, a constructive agreement is reached on everything that enjoys consensus support on both sides of the English Channel, much can be achieved. Assuming that the principle of reciprocity applies, then over time those in the UK who want to reinstate free movement of labour will prevail, since it is also in the best shared interests of UK citizens. If a majority of voters in a member state temporarily sees this differently, then this part of the integration process clearly needs more time.

That would not be the end of the EU, even if some other member states were to restrict the freedom of movement of workers as a response to a Brexit agreement built on maximum cooperation. In politics, many things are done that economists consider wrong. The only counter-measure is insight through compelling arguments – not pressure, and definitely no “all-or-nothing” ultimatums. Multiple speeds are a tried-and-tested means to set integration processes in motion. The slower ones can gradually learn from the faster ones how abstract interests in the common good actually translate into better economic development. Insights of this type do not happen overnight. As soon as they take hold, however, the drive for integration becomes irresistible. And that is precisely what distinguishes a successful club: irresistibility, through obvious mutual benefit.

*This post represents the views of the author and not those of LSE Brexit, nor the LSE.*

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