

# Britain needs the EU much more than vice versa

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*Britain and the EU need each other, but Britain needs the EU more than vice versa, argues **Holger Schmieding**, writing in response to the session of the [LSE Commission of the Future of Britain in Europe](#) chaired by [Kevin Featherstone](#). He claims that after a Brexit there's a risk that more countries may consider leaving the EU. In order to prevent such ripple effect, the core countries of the European Union, which remains the best compromise machine on earth, would push for reforms and closer integration.*



Britain earns 13% of its GDP by exporting goods and services to the other EU members. In turn, these other EU members earn less than 4% of their GDP by sending goods and services across the Channel. Britain accounts for a mere 17% of the joint GDP of the EU. As a result of this asymmetry, the other EU members could set most of the terms in the 'divorce negotiations' after a Brexit. They could see to it that Britain could only maintain access to the common market for goods and services only on terms set by the EU. For every restriction that Britain would place on the free movement of labour, the other EU countries could impose more serious restrictions on Britain's ability to sell financial and other services to the European continent.

Although Britain would lose much more than the rest of the European Union, the economic impact could be serious on the continent as well. The very uncertainty about the outcome of divorce negotiations with the second biggest trading partner for the Eurozone (after the US) would hurt business confidence and investment for a while.

Losing Britain would be a blow to the international reputation of the EU and to its clout. More importantly, it would raise questions about the future cohesion of the EU and the Eurozone, mirroring the uncertainty within Britain as to the potential independence of Scotland. The ultra-right and ultra-left in France, Italy and a few other countries have occasionally demanded to hold national referenda on leaving the EU or the euro. After the precedent of a Brexit, financial markets would pay much more attention to such demands. The result could be a rise in risk premia and a spreading of financial turbulence from Britain to the Continent. Unlike the euro crisis of 2011-2012, which the European Central Bank could, and finally did, end by showing its hand as lender of last resort, such potential financial upheaval could not be brought under control by any central bank. Concerns about the political cohesion of the region would require a political response.





As Kevin Featherstone argues, a Brexit would be a lose-lose situation for both Britain and the remainder of the EU. After a Brexit, the top priority for most mainstream politicians on the continent would be to prevent other countries from breaking away. Facing such concerns, France and Germany would probably get together fast to strengthen the core of the EU and the Eurozone through further integration in some key areas such as fiscal policy and a joint deposit insurance. The “Five Presidents Report” on the steps needed to bolster the Eurozone could serve as a blueprint for such discussions. After some noise, the key political result of a Brexit on the Continent could be that Germany and France move closer together, inviting all other EU members to be part of such a reinforced core. Many of them would probably accept that invitation, some others countries would probably choose to opt out from such further integration. That would add a further element of variable geometry to the EU.

The risk that populists in some EU countries will campaign in favour of leaving the EU after a Brexit is serious. A Brexit would be a major challenge for the EU as a whole, possibly the toughest test since De Gaulle’s “empty chair” policy in 1965. But chances are that the EU would, in the end, come to grips with that challenge. Warts and all, the European Union is the best compromise machine on earth. The EU regularly brings 28 heads of state and government together to slug out their serious differences in long-night sessions in Brussels, only to agree on some compromises in the wee hours of the next morning. Arguably, the absence of Britain would not make it more difficult to find such compromises. So far, the EU has emerged from each crisis with stronger rather than weaker mechanisms for internal cooperation.

*This post represents the views of the author and not those of the BrexitVote blog, nor the LSE. [Free image from Pixabay.](#)*

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