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## A Qualitative Change in the Process of European Integration

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## 6.1 Introduction: Why Brexit Means British Exit from the European Union

Following up on the result of its in-out referendum on membership of the European Union (EU) of 23 June 2016 that had yielded a majority for Leave, the United Kingdom (UK) invoked Article 50 TEU—an exit clause introduced by the Lisbon Treaty, which allows EU members to voluntarily leave the Union—on 29 March 2017.<sup>1</sup> Fundamentally, the UK opted for exit from the EU club rather than for voice and loyalty.<sup>2</sup> By doing so the country created facts (it will leave the EU) but also defined its perspective on the present and future relationship with the Union: as non-cooperative, with the wish to be no longer part of the European integration process.

Henceforth the challenge boils down to disentangling and severing the UK's manifold ties with the highly integrated Union, whose level of economic integration had risen further to an Economic and Monetary Union (EMU) under the Maastricht Treaty, from the initial customs union with a common market under the founding Rome Treaty. With its notification to the EU the UK had set the clock ticking for achieving an orderly withdrawal from the Union within the two-year time limit established for exit negotiations. Prime Minister May's decision to call snap elections on 8 June 2017 did little else but to delay the beginning of the negotiations and to shorten the available time by some three months.

The EU27 have given their chief negotiator, former commissioner Michel Barnier, an agenda and public and detailed guidelines for negotiating the UK's withdrawal from the EU. On the UK's part in contrast, negotiation objectives have remained nebulous even after the start of withdrawal negotiations, apart from repeated commitments to “Brexit means Brexit” coupled with expectations that the UK could simultaneously “have its cake and eat it” with regard to a future relationship. Much ado might also be owed to negotiating posturing. In the opening session UK negotiators came round to fall in line with the EU's sequential approach (nothing else was on offer) that makes talks on the post-exit relationship dependent on sufficient progress on withdrawal. Still, and somewhat contradictorily, UK negotiators announced that they were seeking a (not further defined) new, deep and special partnership with the European Union (objective enshrined in the Queen's speech 2017). Still, should it not be possible to reach agreement on how to unwind more than 40 years of UK–EU relations and consecutively

on the future bilateral relationship, the UK would find itself out of the EU on 30 March 2019 with a third country status and, by default, fall back to trading with the EU on World Trade Organization (WTO) terms.<sup>3</sup>

This chapter is interested in the likely impact on and consequences of a British exit from the EU (Brexit) for the EU. It argues that Brexit has already led to a qualitative change of EU membership, which is positive for the club's sustainability. It cautions against the dangers for the Union and the future of EU integration that lie in giving in to demands for a post-Brexit bespoke agreement by the UK (and eventually other countries whose preferences diverge too much from the preferences of the Union), if it meant putting members at a disadvantage, as that would weaken cohesion and thereby undermine the very foundations of the Union.

The remainder of the chapter is organised as follows. Section 6.2 recalls that it was a fully democratic process that led the UK to leave the EU. Section 6.3 explains why the UK needs to leave the EU before it can aim at a preferential trade agreement with the Union. Section 6.4 confronts Brexit perspectives from the standpoint of the EU (common interest) with the UK's (national interest), evaluating the available options for a post-Brexit trade relationship and explaining why Brexit means a hard Brexit and why soft Brexit bespoke agreement can be interpreted as an attempt to free ride on club benefits post Brexit. Section 6.5 examines the qualitative change in the nature of EU membership that has resulted from Brexit and its positive implications for European integration. Section 6.6 argues that a strong political core built around EMU is a precondition for making possible differentiated overlapping integration with countries that do not wish to participate fully in the EU club. Section 6.7 concludes with respect to future perspectives.

## **6.2 The UK Voted and Decided to Leave the EU Altogether**

### **6.2.1 The UK's Democratic Process to Leave the EU and the Single Market**

The UK took the decision to leave the EU, which went through an unequivocally democratic process.<sup>4</sup> This process comprises the following decisions:

1. The European Union Referendum Act 2015, which was passed by 544–53 votes in its second reading in the Commons and was approved by the House of Lords;
  - Following agreement by both Houses on the text of the Bill it received Royal Assent on 17 December 2015 and became an Act of Parliament (law);
2. The outcome of the June 2016 consultative in-out referendum was clearly in favour of Brexit: 52% to 48% of the vote;
3. The decision to leave the EU was subsequently taken in parliament by an overwhelming majority of MPs at the end of March 2017;
  - Even an amendment to the Article 50 bill by the House of Lords, proposing that the government should commit to staying in the single market, was defeated by 299 votes to 136—even the Labour party did not support it on the grounds that it would mean acting “as if the referendum hadn’t happened”. The Labour leader and leader of the opposition said: “I am asking all our MPs not to block Article 50 and make sure it goes through next week”. The Article 50 bill was given Royal Assent by the monarch;
4. The UK government, with overwhelming support from parliament, invoked Article 50 on 29 March 2017, notifying the EU of its intention to leave the Union;
5. In the UK general elections of 8 June 2017 (also dubbed the Brexit elections) more than 84% of the vote went to parties (Conservatives, Labour and UKIP), which on their party electoral platforms pledged to respect the referendum result and the decision of parliament to trigger Brexit;
6. Negotiations for an orderly withdrawal of the UK from the EU are under way since 19 June 2017;
7. The Queen’s speech of 21 June 2017 (programme of the incoming government), stating that ministers are committed to working with parliament on the country’s future outside the European Union, was approved in parliament.
  - An attempt to approve an amendment to the Queen’s speech, which called for the government to abandon the idea that “no deal is better than a bad deal” in<sup>3</sup> the Brexit talks and to negotiate for the UK to

remain in the single market and the customs union (also referred to as soft Brexit), was defeated by a very large margin in parliament.<sup>5</sup> Clearly, like the Conservatives', Labour's official stance is not in favour of staying in the single market or the customs union. For the two big parties Brexit means Brexit, that is, leaving the EU altogether.

Despite attempts to reverse the democratic decision of the referendum to leave the EU (by appeals to the Supreme Court and to the House of Lords), the UK Parliament and the popular vote in the general elections of 8 June 2017 have overwhelmingly reconfirmed the decision to leave.

By invoking Article 50 the UK not only decided to leave the EU, it also created legal facts, which condition and narrow down its further options. It does not really matter what type of agreement the UK thought possible to achieve after settling the divorce terms and leaving. There is no menu to choose from, as whatever option there might be in theory needs to find the favour of and be agreed by the remaining 27 member states.

## **6.2.2 A Closer Look at the 2017 ("Brexit") General Elections and Lessons for the EU**

Looking at the outcome of the 8 June general elections one can only conclude that the UK Parliament got another strong and clear popular mandate for delivering Brexit. More than 84% of the vote was on a clear Brexit platform (Conservatives, Labour, UKIP), promising to respect the Brexit referendum result. Most MPs were elected on a Brexit or even hard Brexit platform.<sup>6</sup> The vote for Brexit came to imply a hard Brexit.<sup>7</sup>

In that sense, the UK prime minister, Theresa May, achieved her aims—the anticipated elections re-confirmed both the referendum and the Article 50 notification bill (voted for by a large majority in both houses). There is also a significant change in so far as MPs this time ran on their party's manifestos while they had not been candidates on such a platform in the previous elections in 2015, that is, before the June 2016 referendum. Of course, there can be no denial that Theresa May miscalculated her bet to call snap elections to substantially increase the number of Conservative MPs and thereby her grip on the Tory party. May and almost everybody else (even in the Labour party) underestimated Jeremy Corbyn's success in

the election campaign. Yet it is puzzling that many analyses of the election results have focused on the Labour party's electoral success (although the party obtained 56 fewer seats than the Conservatives) and on May's failed gamble, deriving implications for Brexit that we think are ill founded upon a closer look.

As a matter of fact, under Theresa May the Tories' vote share actually increased by 5.5%, that is, from 36.9% to 42.4%. Putting the result into perspective, it equals Margaret Thatcher's achievement (albeit twice) in the 1980s and has not been matched either by any of the other European leaders in recent legislative elections, not even by Angela Merkel in Germany. Whereas the current UK prime minister may have failed to increase the number of Tory MPs, she clearly won the popular vote, as 42.4% of the UK electorate supported her hard Brexit stance including the idea of "better no deal than a bad deal" (the so-called cliff edge scenario) with the EU. The elections also meant that Jeremy Corbyn's clearly pro-Brexit stance in the Labour party won.<sup>8</sup> Corbyn's position in the previous parliament in favour of triggering Article 50 was confirmed and his leadership was reinforced. Conversely, the internal opposition (defenders of a so-called soft Brexit, who constantly challenged his leadership) was weakened. Labour does not further discuss what type of Brexit it wants but it is clear in avoiding any mention of staying in the single market even if that was possible—in fact, it only pledges "tariff free access to the EU market", which can be read as a free trade agreement.

On the other hand, the share of the vote of the parties that were against Brexit decreased. The Scottish National Party (SNP), opposing Brexit, went significantly down, from 4.7% to 3.1% of the vote and lost 13 MPs to the Tories running on Theresa May's hard Brexit platform. The Liberal Democrats (Lib Dems), who had aimed at getting the vote of part of the referendum's 48% remain vote, also went down to 7.4% of the vote. Their pledge to hold a second EU referendum did not resonate with voters.<sup>9</sup>

The election results have shown that the UK electorate backed the parties whose platform was explicitly (Conservatives, UKIP) or implicitly (Labour) for a hard Brexit (roughly 84% of the vote) and withdrew support from the parties that opposed Brexit or had pledged a so-called soft Brexit (SNP, Lib Dems and other smaller parties, among them the

pro-Brexit Democratic Unionist Party that supports the government, and which got together roughly only 16% of the vote).

It stands out that the leave decision and the outcome of the Brexit elections are in line with Eurobarometer findings, according to which UK respondents identify little with the European Union.<sup>10</sup>

That notwithstanding, many anti-Brexit (not necessarily pro-European as we argue below) observers circle in on May's failed gamble to gain more parliamentary seats to interpret the election results as popular support for a softer Brexit or even for remain. These interpretations have once again proved wrong and attempts to overwrite the democratic decision to leave have been frustrated, as the two major parties in parliament made no concessions for a so-called soft Brexit (which they know is an impossibility, as Brexit means to leave the EU and all of its institutions) after the election.<sup>11</sup>

### 6.3 Brexit: Withdrawal from the EU

After all those political and legal decisions to leave the EU, confirmed by various overwhelming majorities in parliament, Brexit has become de facto an irreversible process, for two orders of reasons:

1. From a UK perspective, a reversal of the process would make a mockery of democracy and of its domestic institutions (the Queen, the House of Commons, the House of Lords, the government, the diplomatic service, etc.), which have repeatedly pledged to leave the EU. It would be a self-inflicted humiliation and bound to cause a huge loss of credibility and negotiating capacity vis-à-vis the EU and also the international community. On the other hand, a U-turn on leaving the EU would be rightly seen as a betrayal of the will of the people, most likely with dire political consequences for the country. Furthermore, the UK would face an internal permanent opposition to and non-acceptance of EU membership.<sup>12</sup>
2. From an EU perspective, if the decision to leave were not to be respected, any UK government would again be hostage to Eurosceptic political fractions that would rightly feel betrayed, making the Union in turn (even more than in the past) hostage to the UK's particular national

interests. The continuation and aggravation of the non-constructive attitude from within the club would impede the EU's normal functioning and obstruct its problem-solving capacity, leading to discontentment and populism across Europe and to the possible demise of the EU.<sup>13</sup> This scenario is obviously not acceptable for the EU. On the other hand, the EU cannot allow countries to use Article 50 as a strategic bargaining tool to impose their preferences on the other EU members.<sup>14</sup>

In sum, and in spite of some naïve or circumstantial declarations on “doors remaining open” for the UK that were pronounced by some European politicians and EU officials, possibly forgetting that such a decision can only be taken by unanimity of the EU27, a U-turn on Brexit does not seem possible or desirable.<sup>15</sup>

That is not to say that the EU, following its principles, should not welcome all European countries that want to contribute to the project of an ever-closer union and that are committed to playing by the rules in line with shared values and principles. It means that the UK should be always welcome to (re-)apply for membership of the EU or the European Economic Area (EEA), provided that it is willing to comply with the well-defined obligations and commitments that those memberships imply. However, the UK has to complete its withdrawal from the EU first before a reapplication can even be considered. Any other outcome would mean giving in to UK special interests, without any consideration for what has been negotiated among all EU countries over the years and in the common interest.

The same can be said for the future relationship between the UK and the EU. The EU cannot permit that the UK “has its cake and eats it, too”. That is, set on leaving the Union the UK cannot be allowed to “cherry-pick” in the single market or on any EU policies and be granted privileges that are reserved for membership. For the EU it is not a question of wanting to punish the UK for leaving. The issue goes deeper and is more complex, as the EU is not an intergovernmental organisation but a deep economic and political integration project. Any country that leaves the club has to face the consequences from doing so, most obviously losing the associated benefits.

The UK had already come to claim a special status inside the EU, on top of its many accumulated derogations, opt-outs and special privileges.



The UK's "enhanced special status" that the EU leaders granted Prime Minister Cameron in February 2016, for him to support the remain option in the UK's referendum, turned out to be a dangerous precedent, damaging the EU's credibility. Together with the UK's permanent opposition from within, the situation had already become untenable, inflicting a heavy toll on the EU's good functioning and holding up the political integration project.<sup>16</sup> As we argued in a previous paper (Bongardt and Torres 2016b), in the end it was divergent (insurmountable) preferences over the nature and shape of the economic union that put the UK on a collision course with the EU's integration objectives (Economic and Monetary Union).

Within the EU club the UK had developed into its least integrated member. The situation would have been aggravated further if the "Remain" camp had won the referendum and the UK special settlement deal gone ahead with even more exemptions (among which from ever-closer union and brakes on the evolution of the single market). The result would have been a very different EU club, with an erosion of EU institutions and action capacity, and a EU consequently unable to deliver results to its citizens, which would only contribute to even stronger anti-EU rhetoric both in the UK and in the other 27 EU member states. Thankfully then for most other EU member states that had acted unwisely (not to say undemocratically by conceding the UK pre-referendum settlement), the Brexit vote made those very problematic and self-harming EU concessions invalid. Otherwise, after the UK's long-standing battle to revert the process of European integration towards a more apolitical free trade zone, which culminated in that unfortunate pre-referendum settlement, UK permanence in the EU would have hindered the other member states' efforts to move ahead and deal with the real contemporary challenges facing the EU.

## **6.4 The UK's Short-Term National Interests Versus the EU Common Good**

In our view, the discussion about Brexit in the UK is excessively focused on the national interest, which explains that no attention is paid in political and public discussions to the fact that the EU is there to defend the common good of the Union and the interest of the remaining 27 EU member states

(each with its own concerns with regard to Brexit, like Ireland or Spain). Rather, the UK's perspective resumes to getting the most out of Brexit ("make Brexit a success for the UK"). Conversely, the EU's interest is how to best pursue with and make a success of the European integration project.<sup>17</sup>

When the UK triggered Article 50 this meant that the country was to leave the EU altogether. Neither partial membership of the EU nor cherry-picking in political domains is on offer. For that reason the present negotiation is about disentangling the UK from the EU, not about any deal making. The terms of the UK's participation in the EU were negotiated before it joined the European Community (EC) in 1973 and further fleshed out over time by means of numerous treaty revisions and inter-governmental deals (one may want to recall that those involve all member states and were agreed by unanimity). What is currently being discussed before the UK leaves the EU are hence the divorce terms (settlement of bills, etc.) to sever the created existing ties.

It is the UK government that represents the country in the negotiation—it got a mandate from parliament to freely negotiate Brexit when parliament approved the Article 50 bill and invoked it—and that seeks to agree the terms of the separation with the EU (encountering on the EU side clear negotiating guidelines from the EU27, limited to withdrawal negotiations). Still, as to help smoothen the UK's transition from a EU insider to a EU outsider, the Union has accepted to already start talking about a possible future agreement at a later point in the withdrawal negotiations provided that the talks on the divorce settlement are sufficiently advanced and go well. Of course, any trade or other bilateral agreement can only come into existence once the UK has left the EU (by definition the EU cannot strike international agreements with member states).<sup>18</sup> And surely, with regard to an international agreement it is not only the UK's preferences that count but so do the ones of the EU and its member states. In fact, it is the EU that is in a stronger bargaining position in light of the significant difference in relative size.<sup>19</sup>

Once (if) the terms of separation are agreed and implemented, the UK might want to keep a closer trading relation with the EU than the one it would have by default. Multilateral WTO terms fall short of giving full market access and mean that trade is subject to tariffs, but leave the UK free to seek preferential trade deals.

### 6.4.1 Available Options for a Post-Brexit Trade Relationship

All alternative options come with trade-offs between sovereignty and economic benefits, apart from depending on EU approval. Economic benefits are related to the scope and conditions of single market access and the incidence of customs barriers (issues that are for instance important for the UK's large financial sector or to not disrupt supply chains in manufacturing sectors like the automotive industry).

The available options stretch from EEA membership on the one end to a free trade agreement on the other, with intermediate solutions like a Switzerland-type agreement or membership in the EU customs union. While they all imply a trade-off between sovereignty and economic benefits, they do so to different degrees. The rule is that higher economic benefits are associated with higher integration but can only be had with sovereignty sharing or pooling. Put differently, a UK preference for more control comes at the expense of lower economic benefits.

A full account is beyond this chapter, but suffice it here to draw attention to some features of agreements with relevance for the UK discussion:

- 1) The UK may apply for joining the EEA, like Norway. It gives unfettered access to the EU single market, which is inseparable from the four freedoms, that is, the free movement of goods, services, capital and persons, and implies that the UK must respect all the rules that come with membership (among which free movement of persons, EU regulation and European Court of Justice (ECJ) jurisdiction) and also contribute to the EU budget, without having the right to vote<sup>20</sup>;
- 2) The UK could also try to have a lesser, Swiss-style agreement to get access to the single market (in reality a plethora of some 120 agreements that emulate EEA membership, where the violation of one single agreement triggers the termination by the EU of all the others). While it requires the free movement of labour it does not extend to financial services;
- 3) The UK could also aim to just be in the EU Customs Union (like Turkey). In that case there is limited market access (goods only) without customs barriers, it can control immigration but is not free to strike trade deals with third countries;

- 4) The UK could aim at a deeper free trade agreement, for which the Canada-EU Comprehensive Economic and Trade Agreement (CETA) has been referred as a possible blueprint (the EU regards CETA as its most advanced free trade agreement). In this case the UK would be free to control immigration and make trade deals with other countries but face limited market access (most notably, CETA does not include financial services). Any agreement would moreover be complicated in practice due to the fact that it requires the unanimous ratification by all EU member states but in addition, because of its comprehensive nature, even by some regions<sup>21</sup>;
- 5) Last but not least, there is also the option to reapply to join the EU, and thereby the single market and the customs union, at some point. This option comes with the well-known sovereignty constraints. In addition, however, different entry conditions from those that the country enjoyed at the time of exit would apply. The UK would not be granted the aforementioned special conditions (among which the rebate on its budgetary contribution) and multiple opt-outs and exemptions that made its membership so problematic for the Union.

One may of course question whether the above options are realistic at all in light of the UK's preferences. Rather, the UK's options amount to the same: exiting the EU, including the single market. To start with, this is because its options are constrained by the EU interest and also by different member state interests (Wyplosz 2016).<sup>22</sup> In addition, because of the UK's claims for regaining full sovereignty. As Paul de Grauwe (2017) puts it, the EU should make it clear that UK demands on sovereignty make UK access to the internal market impossible, not as a choice of the EU but as the logical consequence of the UK's quest for full sovereignty. Obviously, what applies to the internal market applies also to other common goods that come with EU membership. The hard/soft Brexit distinction may not be very meaningful, but driven as it is by sovereignty concerns, it narrows down options. In the UK, both Labour and the Conservatives have been defending the need to respect the will of the people and deliver Brexit. The latter were more explicit: hard Brexit (out of the single market and the customs union, even a

no-deal, cliff edge scenario); the former remained more ambiguous: no to the single market and to the customs union but tariff-free access to the EU market.

From the EU's point of view, the issue is more that a certain level of economic integration (with higher benefits) requires sovereignty sharing or pooling and also political commitment. Countries whose electorate is deeply divided on the issue of EU membership and on the objective of an ever-closer union should then not remain in the EU. In function of their different preferences it is preferable that they rather come to establish more or less deep trade agreements with the EU (like the ones of Norway, Switzerland, Turkey or Canada). In the UK, long-standing divisions have led to the country being a member of the EU without participating in two of its most important areas of integration: the euro and Schengen. The UK's participation in the European project is essentially limited to the single market but even there it dislikes being subject to EU regulation, which ensures that the market works in the first place.<sup>23</sup> Arguably, in such conditions there is no point to remain a member of the Union or even of the single market, neither from the UK's nor from the EU's point of view. Besides, each time there is a treaty revision in the EU the solution turns out to be suboptimal, not least because of the UK's particular red lines. The result has been insufficient integration and a popular backlash against the Union in many EU countries and also in the UK. The situation is clearly not sustainable. The EU needs to move forward with increased political integration to deal with a host of urgent transnational issues from which Brexit is little more than a distraction. The UK may want to take a distinct approach to problems and should be free to try it out.

As for the EU, it faces a credibility (and indeed sustainability) issue with regard to the exact terms that it grants the UK post Brexit: it cannot simply accept whatever member states or third countries want to do based on their national interest, at the expense of the Union and of the European project. The UK's reported wish of a "Norway-plus" agreement, which amounts to cherry-picking within the internal market, is a case in point (De Grauwe 2016).<sup>24</sup>

### 6.4.2 Why Brexit Means a Hard Brexit and Soft Brexit Amounts to an Attempt to Free Ride on EU Club Benefits

The single market is at the centre of what the EU does. British participation in the EU has also become very much limited to it. It follows that leaving the EU for the UK logically means leaving the single market. The UK government's expressed exit negotiation demands (notably regaining full control over immigration and putting an end to being subject to the jurisdiction of the European Court of Justice) mean that the country excludes itself from the single market (De Grauwe 2017), whereas through demands to be able to strike trade deals the country excludes itself from the customs union. What else could the UK want to leave, given that it already opted out or refrained from participating in other European major institutions?

Against this background, all the various positions on Brexit, including from anti-Brexit parties (Liberal Democrats, SNP and other smaller parties) and vested interests (in industry and especially in the financial sector), just amount to different negotiating strategies, which also include the government's so-called cliff edge scenario, to extract the most from the EU. Even the Lib Dems, which assume themselves as pro-Europeans, have come to defend a totally de-characterised EU much at the image of previous Eurosceptic demands that led to the infamous UK settlement in February 2016. They all amount to defending only the UK national interest by means of a post-exit bespoke deal with the EU. Such a tailor-made deal is euphemistically called soft Brexit. In practice it amounts to the UK free riding on the EU: the UK would maintain most of EU membership advantages without the obligations and commitment of a member. It seems obvious that the EU should refuse such concessions for the sake of its own survival. In fact, trying to shift from hard to soft Brexit is just a way of trying to secure the economic benefits that come with deeper integration but without the sovereignty constraints. That is obviously not on offer. To enjoy the benefits of EU integration and membership a country has to share sovereignty with its partners.

In the end, the strategy of a bespoke deal corresponds not only to a so-called soft Brexit but is the attempt to "have the cake and eat it, too". It is congruent with suggestions that any new trade deal must deliver the

“exact same benefits” the UK enjoys from being inside the single market and the customs union. Obviously that cannot happen, as that would mean that the EU would let non-EU members free ride on the benefits of membership, even more so by a member state that has unilaterally decided to abandon the club. The bespoke deal strategy became clearer after the 8 June general election given the attempts of transforming a clear majority for hard Brexit (84% of the popular vote) into a soft Brexit mandate, with pressures likely to grow to the extent that the economic consequences of Brexit become felt. Claims of the superiority of a soft Brexit solution are thus purely based on the UK national interest.

For the UK, the need for a tailor-made deal arises because otherwise a “soft Brexit” (with access to the single market and membership in the EU customs union) is neither compatible with the UK’s stated objective to exit the Union nor with its preference for regaining or maintaining national sovereignty in a range of policy areas. For the rest of the EU, however, it would carry a heavy burden.

For the EU such a soft bespoke Brexit is not on offer. It is not acceptable that a country that wants to leave the Union to reaffirm its sovereignty comes to cherry-pick and extract privileges for the sake of its purely national interest, which are either not available to others (be they EU or EEA members) or go against the common good. This applies to the above-referred UK demands for being exempt from European Court of Justice (ECJ) jurisdiction, limitations to the free movement of people—one of the four freedoms, and hence a non-negotiable precondition for an unfettered access of the common market—or being free to strike trade deals with third countries, incompatible with being a member of the EU customs union.<sup>25</sup>

## 6.5 A Qualitative Change in the Nature of EU Membership

The EU faces the challenge that the club has become not only much larger over the years but by many accounts also a lot more heterogeneous, so that its decision-making and problem-solving capacity is compromised if governance is inadequate and institutions cannot be made to work

properly. It ultimately raises the issue of the optimum size of the EU club.<sup>26</sup> Fundamentally, the Union has to come to grips not only with different country preferences (although preferences on institutions can evolve) but with a situation in which successive enlargements brought countries with different views on supranational governance and European economic integration as a political project—initially confined to different clubs, EEC and EFTA and others—into the same club.<sup>27</sup> As explained above, the UK is a case in point.

Article 50 plus the precedent set by the UK vote for Brexit and its decision to leave the EU has made it politically easier for any member state that is not happy in the EU to leave the club. Thereby the nature of EU membership has changed: countries will now have to make a constant effort (both with respect to their electorates and to their partners in the Union) to remain members. The fact that Brexit opened the door for any discontent member state to exit the club will most likely reduce any member state's capacity to hold up decisions that are in the common interest, and should thereby facilitate decision making and problem solving.

Member states will also have to come clear in terms of narrative, stopping scapegoating the EU for domestic failures (case of the UK but not only), which has been undermining the EU (Buti and Lacoue-Labarthe 2016).

Those developments are quite positive. It is in the interest of both the EU and discontent member states that do not wish to contribute to the club's public goods (apparently also the case of some other EU members like Denmark, Hungary or Poland). It leads us back to the idea of variable geometry or various concentric circles. The fundamental lesson from Brexit is that the EU will need to focus and deliver on EU common goods in order to be sustainable. With divergent preferences across member states, that may have to happen through variable geometry. Yet, although reinforced cooperation, for which there are already many examples of sub-clubs, offers a way out of a stalemate it only does so in the short term, as it puts the cohesiveness of the EU project at risk in the longer run. For the EU to function, the Union needs a political core and a shared identity and destiny. It is the Eurozone that has established itself as the core circle of European integration.

There are limits to what differentiated integration can achieve. Having European institutions built with more flexibility that can accommodate



different preferences contributes to a better functioning of the EU (Spolaore 2013). However, a loose intergovernmental arrangement to accommodate all different preferences would come at the expense of the Eurozone and in consequence it would mean the end of the European integration project as an “ever closer Union”. It is not the EU that has to adapt to the very divergent preferences of given countries (some of them joined the EU upon the condition to join all of its institutions such as the euro but seem to have changed their intentions) but rather it is those countries that have to decide whether they want to stay in the Union or leave.<sup>28</sup> That is why it is important to have explicit provisions not only for entry but also for exiting the EU (Spolaore 2015). Binding in third countries in existing intergovernmental agreements (as suggested in Pisani-Ferry et al. 2016) also carries the risk of a backlash on EU dynamics because it then makes the evolution of governance towards the Community sphere difficult even if preferences converged among EU member states. In our view, differentiated integration is only sustainable if anchored to a solid core, which is the Eurozone.

## 6.6 The Need for a Strong Core as an Anchor for Differentiated Integration: The Case of the Eurozone

If there are lessons to be learned from Brexit, one is that there are limits to differentiated integration and that the EU will need to focus and deliver on the EU common goods in order to be sustainable. With divergent interests across member states, too much differentiation through opt-outs and reinforced cooperation can erode the cohesiveness of the EU project.<sup>29</sup> EMU—the EU’s treaty-based integration objective—is a case in point.

EMU is a political project that has triggered and still requires further integration. Making monetary union work requires completing the economic union side so that it can sustain the single currency and deliver on the EU’s wider objectives (Bongardt and Torres 2016a). The single market can therefore not be seen as static. It is in the legitimate interest of present and future Eurozone members—all EU members except the UK and Denmark, which have an opt-out—that it be deepened, to make it sustainable in light of the increased interdependencies between its members.

This issue is at the heart of the EU project. And to be sustainable, the EU needs to complete its Economic and Monetary Union so that it delivers economic and social results. Member states should be prepared either to contribute to those aims or to seek alternative forms of association with the EU. The EU's capacity to shape globalisation in line with citizens' concerns (not merely growth-oriented but in a more inclusive and greener manner, in line with the Lisbon and Europe 2020 strategies' objectives) will be critical for the support of the project.

The necessary convergence of preferences for a "genuine" EMU was already difficult to achieve in light of increasing EU membership and more heterogeneous member states, but progress was further complicated by the fact that membership in the Euro area sub-club—where interdependencies are larger and the completion of EMU governance is more urgent—has remained smaller than the EU club's. The announced departure of the UK from the EU leaves only one member state with an opt-out from EMU, namely Denmark, which however shadows the Eurozone. All the other (present or future) member states are to join monetary union at some point, upon fulfilling the requisites (or at least they so committed when they joined the EU).

In a EU club whose integration objectives have advanced since the Maastricht Treaty to Economic and Monetary Union (EMU), the UK has been harbouring preferences for a stand-alone (and incomplete) economic union. Once the Eurozone became established as the *de facto* core of European economic and political integration, those different UK preferences became untenable. During the global (economic and financial) and especially the Eurozone sovereign debt crisis, the UK's stance started to collide with the need to make the monetary union work. It became clear that further integration and institution building were needed in the economic union sphere as to impede the unravelling of monetary union, and with it of European integration achievements like the single market (as it cannot be treated as static with regard to EMU requirements, notably with regard to financial services).

It is in the legitimate interest of present and future Eurozone members that economic union be deepened with regard to Eurozone requirements to make the monetary union sustainable; doing so requires not only structural reform at the member state level but also advances on EU-level

governance. However, the requirements on the EU's economic union seemed irreconcilable with some preferences expressed by the "Remain" camp in the UK, which saw the UK staying in the single market while adhering to policies of its choice. Needless to say, such a pretension is not acceptable for the other member states.

Among all EU members, the UK stands out as the least involved in the building of European economic governance. The UK's stance had not only been limited to maintaining itself at the margins of economic governance advances during the global financial and especially the sovereign debt crisis but it also actively tried to impede them, even by employing its veto. Because of the UK's veto, the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG), also known as the Fiscal Compact, could only come to life as an intergovernmental treaty outside the EU legal framework. The UK did not participate in the Euro-plus Pact and in the European Banking Union either. Moreover, the UK also did not wish to constructively assist any of the member states whose economies underwent adjustment (bailout) programmes. It did not participate in the European Financial Stability Facility (EFSF) or the European Stability Mechanism (ESM), having made an exception only for Ireland, to whom it was in the UK's national interest to provide bilateral loans in light of financial sector interdependencies (Bongardt and Torres 2017a).<sup>30</sup>

Still, on economic benefit terms alone (abstracting from strong preferences for sovereignty), the UK's non-cooperative stance was somewhat puzzling since the country has benefited significantly from the Eurozone, most notably because of a high proportion of euro-denominated financial activities taking place in the city of London<sup>31</sup> and because of privileged access of UK banks to the ECB's liquidity operations during the global financial crisis.

Had the outcome of the UK EU membership referendum been different—not "Leave" but "Remain"—the Eurozone would have risked seeing its legitimate efforts to strengthen EMU, including where necessary by deepening the single market, to be vetoed by a country with a derogation from EMU. In other words, had "Remain" won in the referendum, the prospects for completing and sustaining EMU would have worsened and dissatisfaction with the EU would have increased.

Brexit thus ought to make it easier for the Eurozone to go ahead with necessary institutional reforms to complete EMU, which happens to be a sufficiently challenging task even without the opposition from within of a large and important member state. The departure of the UK opens up the perspective to gear financial regulation in the single market better towards the Eurozone's public good of financial stability, thereby reinforcing the economic union in a crucial area for the monetary union. It could also prove easier to bring intergovernmental economic agreements into the Community framework at some stage.

## 6.7 Concluding Remarks

Brexit is a priority for the UK. For the EU, it is a major and costly distraction from important common challenges such as the completion of Economic and Monetary Union and the migration crisis that it needs to respond to. It is in the interest of the UK to settle its financial liabilities and leave the EU in the least acrimonious way and as fast as possible as it will come to depend on the goodwill of each one of the EU27 for any future trade deal and post-Brexit relationship.

Looking back, the UK had access to many of the EU common goods, blocked several others, benefited for many years from many exceptions, and refused to help or to play a constructive role during the sovereign debt crisis, and has unilaterally decided to abandon its partners in a difficult juncture. In fact, the EU and all of its members (including the UK) have suffered since long from the UK's growing estrangement and especially since the negotiation of the Maastricht Treaty that enshrined the Union, from the UK's systematic opposition from within. Attempts at institutional reforms to allow for deepening integration with a view to a more efficient and a more democratic EU were systematically vetoed by the UK. This has carried a very high price, which a Eurosceptic fraction in the British main parties and business sector (more keen on a US-type less regulated environment) impinged on the European integration project.

For both the EU and the UK, especially for the UK's many friends in Europe, the best that can happen in the present setting is to avoid special EU concessions to the UK to smoothen the costs of Brexit at the expense

of the good functioning of the EU. The EU has to act responsibly and protect its interests, that is, the common good. The issue has nothing to do with wanting to punish the UK, which would be contrary to the EU integration spirit and also counterproductive, but is about avoiding (to continue) punishing the EU.

One cannot exclude (after all there is already a precedent in the past) that the UK will come to realise that it is not in its national interest to stay out of the club and that it will at some point decide to reapply to join the EU. Being relegated to the world of pure intergovernmental interests, the UK is likely to experience how much closer it is to the EU countries than to other hypothetical allies. However, it will only be able to re-join the EU on very different terms: with no reservations, no rebate to the Community budget and no opt-outs from the Union's core institutions (from EMU and Schengen, among others). In that scenario, the UK would come to play a much more constructive role in EU governance and in deepening European integration as it did for instance in the case of promoting the completion of the single market, whose regulatory nature it came later to dislike. True Europeanists in the UK should focus on preparing the political terrain for a whole-hearted comeback in some years and not on subverting the democratic decision taken by UK citizens. By the same token, EU leaders and institutions should focus on preserving the cohesiveness of the European integration project instead of kicking the can down the road and allow for an ever more differentiated type of integration to accommodate Poland, Sweden and others at any cost. That road will not contribute to a shared European identity and would eventually destroy the Union.

## Notes

1. The decision to have an in-out referendum came in the sequence of many years of growing unease with respect to EU membership (and opposition from within the Union), in the course of which the UK became the EU's least integrated member (see König 2015, for an illustrative graphical presentation).
2. In the well-known terminology of Hirschman (1970).

3. To avoid that outcome, the UK would need to ask for a prolongation or interruption of the process, which would require the unanimous approval by the EU27 and would almost certainly come with new conditions attached. That would constitute a rather humiliating situation for the UK and would only erode its credibility and bargaining power even more.
4. It is also a logical consequence of ever more diverging UK preferences from the EU club (see Bongardt and Torres 2016b). In truth, the UK already had different preferences with regard to the sovereignty/economic benefit trade-off at the outset: It preferred an intergovernmental preferential trade organisation—it did not want to be part of the supranational European Economic Community (EEC) and founded the intergovernmental European Free Trade Association (EFTA) instead—but ended up joining the EEC because of its larger economic benefits. And indeed that membership helped it revert the British economic decline (Campos and Coricelli 2017).
5. On 29 June 2017, 49 “Labour rebels” (about a fifth of the Labour party), with the Liberal Democrats and the Scottish National Party and others, signed an amendment to the Queen’s speech, which called for the government to abandon the idea that “no deal is better than a bad deal” in the Brexit talks and to negotiate for the UK to remain in the single market and the customs union. The amendment was clearly defeated as it only got 101 votes (less than one-sixth of the House of Commons). Moreover, after the vote the Labour leader, Jeremy Corbyn, asserting his authority in the party, sacked the three shadow ministers who had voted in favour of the pretension.
6. See Bongardt and Torres (2017c, d).
7. The reason is that the Leave vote was directed at the UK’s EU membership status quo—which given the manifold UK opt-outs and non-participation in policy areas essentially boils down to leaving the internal market—and that EU additional concessions offered to the UK (the UK pre-referendum settlement) had not changed the outcome. Once the British people—perhaps unexpectedly for the proponents of the referendum (which was to be used as a bargaining tool in the EU)—had voted by a majority (52% to 48%) in favour of leaving the EU, those additional and far-reaching exemptions, which the government of former Conservative prime minister Cameron had demanded and obtained as a pre-condition for running a remain campaign and staying in the EU club thereafter, became invalid.

8. Jeremy Corbyn had already voted in favour of leaving the EEC in the 1975 referendum, spoke out against the Maastricht Treaty, which established the European Union, and voted against the Lisbon Treaty in 2008.
9. The former Lib Dem leader and vice prime minister from 2010 to 2015, Nick Clegg, defended (Clegg 2017) after the general election that the EU should grant the UK access in the future to the internal market and the customs union as to minimize the negative consequences from Brexit, whereby the EU should commit to a reform of the free movement of labour (including an emergency brake against especially high EU immigration). Such a position does not differ much, if at all, from the position of David Cameron's government, which led to the referendum and to Brexit, as it only takes into account the short-term interests of the UK. Obviously such a soft Brexit stance amounts to free riding on the EU and has no chance even to be considered by most of the EU27. It shows, however, that even the traditionally pro-European Lib Dems (at least before they entered into a government coalition led by the Conservatives) do not quite defend the EU and constructive UK membership but seem aligned with other Eurosceptic postures, just aiming at some cherry-picking on its institutions.
10. Sixty-four per cent of UK respondents opted for national identity only, with only 31% feeling attached to a shared—national and European—identity (Laffan 2016).
11. The idea (put forward by Timothy Garton Ash 2017) that if the priority is the economics then one must logically argue that Britain should stay in the EU is based on a false premise. As the author recognises, David Cameron had fought the referendum even exaggerating the negative economic consequences of Brexit and lost it. In fact, people voted for Brexit, opting for regaining what they see as sovereignty in spite of risking to forgo some economic benefits. As we argue below, there is a trade-off between sovereignty and economic benefits and therefore a UK preference for control spoke stronger than the loss of possible economic benefits. This is how democracy works.
12. Defenders of a reversal of the decision argue that people did not vote what type of Brexit they wanted. The argument does not make much sense, as there is only one type of Brexit: to leave the EU. It is difficult to imagine that people voted to leave the EU but that their intention was to stay in the EU's single market. Because what else could the UK want to leave, given that it is not member of EMU, Schengen, police and justice matters

(block opt-out with selected opt-ins), secured a protocol to the treaty relating to the application of the Charter of Fundamental Rights and does not participate in many other EU institutions (most notably related to the completion of economic union and the strengthening of economic governance)? Eventually people may have different preferences on what type of relation they want with the EU in the future. However, that is irrespective of the first step (Brexit) and can only be settled after the UK leaves the EU, hinging on mutual agreement with the Union (conditioned by EU common interest and the interest of the EU27).

13. The success of anti-EU populist parties in continental Europe, especially in France, is prominently rooted on the one hand in the dislike of the EU's stance attributed to UK or Anglo-Saxon deregulated economic model and, on the other hand, in what is seen as a neglect of the European model. In that respect, the UK exit will also be helpful.
14. See Closa (2016) for an interpretation of Article 50 and its use, including its potential strategic use.
15. Such an apparently open position amounts, on the one hand, to a subversion of the democratic process that led to the country's decision to exit the EU and, on the other hand, to a (not very wise, if not naïve) invitation for any EU country to try to extract short-term dividends at the expense of the common good and the sustainability of the European project.
16. Brigid Laffan (2016) calls attention to the fact that there are real dangers to the future cohesion of the Union if the UK is seen to benefit from exiting.
17. Note that even when leaving the Union it is always in the UK's long-term national interest to have a strong and stable neighbour (the EU). That implies that the EU needs to function well and deliver.
18. A transitional agreement after 30 March 2019 seems possible but conditional on a clear perspective for a future agreement and time limits (European Parliament red line).
19. The UK accounts for only 15% of the EU's GDP.
20. It is also not clear whether countries like Norway, Iceland and Liechtenstein would welcome the UK's application given its disparate size.
21. For a critical appraisal and criticism of the EU's current strategy of pursuing comprehensive bilateral trade agreements underpinned by far-reaching bilateral rules that govern the relationship, see Bongardt and Torres (2017b).
22. The country studies yield that a larger number of EU member states is likely to support a hard Brexit, few a soft Brexit and some take a more case-by-case view.



23. However, as Gros (2016) observes, “real-world examples show, no country that wants to benefit from the European Project has been able to have its cake and eat it. Open borders and economic integration require common rules”.
24. The proposal for a continental partnership by Pisani-Ferry et al. (2016), considerably less deep than EU membership but rather closer than a simple free trade agreement, is incompatible with this view and, in our opinion, with EU interests. Being very flexible to accommodate UK (or other countries’) interests through ever more differentiated integration it risks limiting the evolution of governance from intergovernmental to supranational when preferences converge among club members and to lose sight of creating a strong EU core. It would also mean to give in to the strategic use of Article 50 in the pursuit of national interests in detriment of the EU27 and of the European integration process.
25. Demands on the part of some in the “remain” camp for a vote in parliament on the conditions on which the UK will leave the EU (the terms of divorce or settling the financial liabilities), which were in any case rejected by parliament (and even by the House of Lords, by 274 votes to 118 votes), do also not make sense. If the other EU 27 member states do not approve those terms and/or the European Parliament does not ratify them (and without the necessary unanimity of member states to extend the negotiations), the EU treaties will automatically cease to apply to the UK at the end of the two-year period. Those are the rules of Article 50, which was nevertheless triggered by the UK government with an overwhelming support of parliament.
26. That is, whether at the margin benefits are still larger or just equal to heterogeneity costs. On the benefit side, the internal market trade benefits loom large. They are already large, and there is scope for improving the functioning and delivery of economic results of the single market (Europe 2020 strategy, digital single market, energy union), so that the benefits from EU club membership can be significantly enhanced. On the other hand, increasing heterogeneity has made itself felt in various policy areas. To the extent that it undermines trust between member states (on which, for instance, the principle of mutual recognition relies) it also makes decision making more difficult (although countries could trade off benefits across issue areas and various common goods). This is not the case for the UK, however, whose participation in the Union is essentially associated with the single market.

27. As pointed out by Alesina et al. (2017), the main impediment to further European political integration has not been heterogeneity of tastes or of cultural traits, but other cleavages like parochial national identities.
28. Soros (2017) defends a loose and flexible EU at the expense of the Eurozone as its political core and of an ever-closer Union. He goes even further in defending that the EU should grant a special treatment to the UK, in recognition of the fact that Brexit is a step towards disintegration and thus a lose-lose proposition. We argue exactly the opposite, that is, that Brexit facilitates further EU integration.
29. For a discussion of the complex state of differentiated integration in the EU see König (2015). As we argue, it makes a shared identity difficult without a core project.
30. The same did not happen in the case of Greece, where the UK even insisted on guarantees that it would be exempt from loan guarantees granted against the EU budget.
31. This is unlikely to continue after Brexit, as normally these activities should be undertaken inside the regulatory area under the control of the ECB.

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