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How EU Overreach Pushed Britain Out
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CAMBRIDGE – A thoughtful British friend of mine said to me a few days before the United Kingdom's "Brexit" referendum that he would vote for Remain because of his concern about the economic uncertainty that would follow if the UK left the European Union. But he added that he would not have favored Britain's decision to join the EU back in 1973 had he known then how the EU would evolve.

While voters chose Leave for a variety of reasons, many were concerned with the extent to which EU leaders have exceeded their original mandate, creating an ever larger and more invasive organization.

Jean Monnet's dream of a United States of Europe was not what the British wanted when they joined the EU 40 years ago. Nor were they seeking a European counterweight to the United States, as Konrad Adenauer, Germany's first post-war chancellor, had once advocated. Britain simply wanted the advantages of increased trade and labor-market integration with countries across the English Channel.

The EU began as an agreement among six countries to achieve free trade in goods and capital and to eliminate barriers to labor mobility. When EU leaders sought to reinforce a sense of European solidarity by establishing a monetary union, Britain was fortunately able to opt out and keep the pound – and control over its monetary policy. But the opt-out has left Britain a relative outsider within the EU.

As the EU expanded from six countries to 28, Britain could not permanently limit entry to its labor market by workers from the new member states. As a result, the number of foreign-born workers in Britain has doubled since 1993, to more than six million, or 10% of the labor force, with most now coming from low-wage countries that were not among the EU's other original members.

Although pro-Brexit voters worry about the resulting pressure on UK wages, they generally do not reject the original goals of increased trade and capital flows that are the essence of globalization. Some Brexit defenders could point to the example of the successful US free-trade agreement with Canada and Mexico, which contains no provision for labor mobility.

Unlike Britain, the other EU countries, led by France and Germany, wanted more than free trade and an enlarged labor market. From the start, European leaders were determined to expand the "European project" to achieve what the Treaty of Rome called an "ever closer union." Advocates of shifting authority to EU institutions have justified this with the notion of "shared sovereignty," according to which British sovereignty could be eroded by EU decisions, without any formal agreement from the UK's government or people.

The "Stability and Growth Pact" of 1998 imposed a limit on member countries' annual deficits and required that debt-to-GDP ratios shrink toward a maximum of 60%. When the global financial crisis began in 2008, German Chancellor Angela Merkel saw an opportunity to strengthen the EU even further, by enforcing a new "fiscal compact" authorizing the European Commission to oversee members' annual budgets and impose fines for violating budget and debt targets (though no fines have been levied). Germany also led the move to establish a European "banking union" with a single regulatory framework and a binding resolution mechanism for troubled financial institutions.

Not all of these policies directly affected the UK; nonetheless, they widened the intellectual and political gap between Britain and the EU's eurozone members. That reinforced the fundamental difference between market-oriented British governments and those of many EU countries, with their traditions of socialism, government planning, and heavy regulation.

The division of powers between the EU bureaucracy and member states is governed by the ambiguous principle – borrowed from Catholic social teaching – of "subsidiarity": decisions should be made at the "lowest" or least centralized level of "competent authority." In practice, that did not limit the rulemaking in Brussels and Strasbourg. Subsidiarity provides much less protection for EU member governments than the Tenth Amendment of the US Constitution – which denies to the federal government any powers not delegated to it by the Constitution – does for US states.

The British public is of course not alone in its discomfort with the EU. A recent poll conducted in EU countries by the Pew

Foundation found that a majority of voters in three of the largest countries – Britain, France, and Spain – view the EU unfavorably. In Germany, the public was split 50-50. In Italy, a clear majority say that they have benefited from EU membership; and yet the populist Five Star Movement, which recently won mayoral elections in 19 of the 20 cities it contested (including 70% of the vote in Rome), has promised a referendum on leaving the eurozone if it wins the parliamentary election later this year.

Although many officials and experts predict that Brexit will have dire economic consequences, this certainly is not inevitable. Much now depends on the terms of the future relationship between the EU and Britain.

The UK is also now in a better position to negotiate a more favorable trade and investment treaty with the US. Although the proposed US-EU Transatlantic Trade and Investment Partnership (TTIP) is bogged down, a British government outside the EU could negotiate a deal with the US far more easily. The US would be negotiating with one country, not 28 — many of which do not share Britain's pro-market policies.

The question of Britain's EU membership has been decided. Now its economic future depends on what it does with its new independence.

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