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## Brexit Poses Multiple Risks to Europe's Stability

There are growing signs a British exit from the EU could unleash hard-to-control political and economic forces, Simon Nixon writes



The British and European flags stand side-by-side at the EU's headquarters in Brussels. PHOTO: VIRGINIA MAYO/ASSOCIATED PRESS

By **SIMON NIXON**

June 19, 2016 2:26 p.m. ET

Perhaps the strongest argument for Britain remaining in the European Union is that leaving it risks unleashing forces beyond anyone's control. Not that this line of argument has played much of a role in the campaign itself.

When David Cameron asked a few weeks ago whether anyone could be certain that "the peace and stability of our continent are assured beyond any shadow of doubt," he was widely ridiculed; Newspapers accused the prime minister of predicting that a British exit from the bloc would lead to World War III and even genocide.

Conversely, when leading "Brexit" campaigner Michael Gove stated his belief that quitting the EU would lead to the "liberation" of Europe from the euro and EU, there was little attempt to explore what the collapse of the post-war European order might mean for Britain and Europe's stability and prosperity.

All of the economic studies highlighting the likely costs of the U.K.'s exit—collectively dismissed by "Leave" campaigners as "Project Fear"—have been based on an assumption that the EU would be largely unaffected by the UK's departure, as if all that is at stake in the referendum is the UK's bilateral relationship with Brussels, rather than a direct challenge to the multilateral

relationships among 28 sovereign states. In what has been a remarkably parochial British debate, the stability of Europe is taken as a given.

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But with days to go until Thursday's referendum, this assumption looks complacent. There are growing signs that a Brexit could unleash political forces in Europe that would be tough to control. If the U.K. decides it wishes in the future to pursue its objectives in Europe unilaterally rather than to rely on the framework

of the European treaties, then it is likely that other countries will question their own commitment to the existing European structures. A Pew Research Study showed rising dissatisfaction with the EU across the continent and a large majority of citizens who believe Brexit will be bad for the EU. Polls suggest growing support for similar referendums in Sweden, Denmark, Holland and even France.

Central and Eastern Europe may be particularly vulnerable to political contagion. The Brexit campaign is already having an impact on politics in the region, with right-wing nationalist parties capitalizing on fears of an increasingly German-dominated EU, stripped of its most pro-free market member and the most powerful champion of non-euro countries. At this month's Prague Economic Summit, the prime ministers of Poland and Hungary warned they would seek big changes in the way the EU operated if the U.K. left, raising the prospect of further clashes with Brussels over differing interpretations of what constitutes the rule of law and European values.

Brexit could unleash hard-to-control economic forces across Europe, too. Some downgrading of eurozone growth forecasts seems inevitable, given the likely disruption to British trade and the prospect of financial-market volatility leading to higher real interest rates. A stronger euro, which would hurt European exports, would also be likely if, as expected, sterling depreciated and the U.S. Federal Reserve decided Brexit was a reason to delay its next interest rate increase. Some eurozone central bankers fear that uncertainty over the future direction of the EU would lead to an even sharper shock as companies and households put planned investment and spending on hold.

Under such circumstances, the European Central Bank's defenses might be limited. The costs and benefits of negative interest rates are becoming more finely balanced, while the ECB's bond-buying program is already running into both capacity and political constraints. Its options might be further complicated when the German constitutional court rules next week on the legality of the ECB's existing bond-buying programs. If the market starts to question again the sustainability of national debts or the solvency of banks, eurozone governments might quickly find themselves under pressure to come up with political solutions for which they currently seem unprepared.

But it is in the U.K. where the forces unleashed by Brexit might be hardest to control. Even before last week's slaying of lawmaker Jo Cox—after which the accused killer gave his name in court as “Death to traitors, freedom for Britain”—it was clear the referendum campaign was inflaming passions in British politics that may not be easily cooled whichever way the country votes. Having built its campaign around pledges that a post-Brexit U.K. could simultaneously bring an end to large-scale immigration without damaging the U.K.'s trading relationship with the EU and, in the process, release billions of pounds to fund its spending pledges, the Leave campaign risks raising

## What polls, wagers and sterling options trades say about Brexit

### Pollsters Remain +2

Remain	Leave
46%	44%

Average of six most recent polls; grey shows 'don't know'; see more »  
(<http://graphics.wsj.com/brexit#polls>)

expectations it seems unlikely to be able to meet. At the same time, the campaign's ad hominem attacks on "experts" who contradict its assumptions and its anti-immigration posters, which play on false claims that Turkey is about to join the EU, raise questions about how Leave campaigners would react if the fears of the experts proved well-founded.

### Gamblers Remain: 70.4%

59.8%	87.3%
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Source: Betfair; range of odds over past 90 days, daily averages, except final point which is as of 12:40 a.m. BST June 24

### Traders Low volatility: 13.3%

9.2%	28.9%
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Source: Thomson Reuters; range of one-month implied volatility in sterling-dollar exchange rate over past 90 trading days; as of 12:30 a.m. BST June 24

Brexit would constitute a revolution in the U.K., a repudiation of the country's most powerful institutions including Parliament, the Treasury, the central bank, and much of the country's business, financial, scientific, educational, military and diplomatic leadership. If the U.K. does vote to remain in the EU this week, it would be because voters have asked themselves the question: Where will this end?

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