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MINNPOST

What is 'Brexit' and why should Minnesotans care?

By [Louis D. Johnston](#) | 06/16/16



“Should
the
United

REUTERS/Russell Boyce

Kingdom remain a member of the European Union or leave the European Union?” That’s the question that UK citizens will answer in a referendum next Thursday, June 23.

If a majority of voters choose to remain, then nothing changes in terms of Britain’s membership in the EU. A vote to leave triggers Brexit, i.e. a **British exit** from the European Union. Polls indicate that British voters are closely divided on the question, with the latest data giving a slight edge to the “leave” camp.

What are the consequences of a Brexit? And, why should Minnesotans care?

General consequences of Brexit

The United Kingdom joined the European Union (then known as the European Economic Community) in 1973, after having twice been rejected for membership in the 1960s. At the time, the EU was what economists call a customs union. That is, all tariffs (i.e. taxes on imports) were

eliminated among EU members and all members levied a common tariff on non-EU imports. For example, if a French company or a British company imported a product from the U.S., they would charge the same tariff on that import.



Since 1973, the EU has evolved from a customs union into a closely linked set of political and economic ties among its member nations, summarized in the **Treaty of Lisbon**. (For more details on the EU, see my **Econ in English video** on the topic.) These include a common currency, the euro, adopted by some members, along with common regulations on trade in goods and services, and the movement of people.

Article 50 of the Treaty of Lisbon is the key to Brexit. Unlike the U.S., where we had to fight a civil war to decide the question of secession, Article 50 states that “Any Member State may decide to withdraw from the

Union in accordance with its own constitutional requirements.” Once a government announces its intention to withdraw, it enters into negotiations with the EU to specify the terms of its withdrawal.

Thus, if there is a vote for Brexit next Thursday, the UK will not immediately leave the EU. Instead, there will a period of time during which all of the agreements between Britain and its European brethren will have to be renegotiated.

Why Minnesotans should care

Brexit could affect Minnesotans, generally, and Minnesota businesses, in particular, in a variety of ways, none of them good. If you travel or have business interests in Europe, here are some possible consequences.

Travel

Currently, once an American enters the UK they can move throughout the EU without obtaining a visa in any other EU country. With a Brexit, there would probably be border controls between Britain and other EU countries. In fact, this is one of the most important issues in the debate, as many British citizens believe that membership in the EU allows far too many people to migrate to Britain and that a Brexit will allow the UK to better control immigration.

Goods and services

Brexit will take the UK out of the European single market and force Britain to rework its trade relationships with other European countries. One possibility is that the UK will follow Norway’s model, in which it participates in the EU’s single market but nothing else associated with the EU. Another possibility is for Britain to work with other countries through the World Trade Organization,

just as the US., Japan, and China currently do.

Now, suppose that you are a Minnesota company and your European headquarters is located in the UK. Brexit will probably lead you, and other U.S. companies, to consider moving to an EU member country. That's a hassle and a cost to doing business, not to mention a dose of uncertainty that you don't need in an already volatile world economy.

Finance

Another note of uncertainty tied to Brexit concerns the international financial market centered in London. It's not clear how the negotiations over Brexit would affect this important part of the British economy. For example, would the French and/or Germans take this opportunity to put up barriers that favor Paris and Frankfurt as financial markets vis-a-vis London? How would that affect Minnesota companies' ability to finance their European operations? Would this push Minnesota companies to alter their financial arrangements in costly ways? No one knows for sure.

More broadly, Minnesotans could be caught up in a financial storm created by Brexit. **According to Reuters**, "The European Central Bank would publicly pledge to backstop financial markets in tandem with the Bank of England should Britain vote to leave the European Union," but that only means that the two central banks would try to minimize the damage, not prevent it.

Fed Chair Janet Yellen **alluded to these concerns** yesterday when she noted, "Recent economic indicators have been mixed, suggesting that our cautious approach to adjusting monetary policy remains appropriate." Clearly the Fed didn't want to add to an already uncertain financial situation by raising interest rates.

It's easy to think that a British referendum won't matter much to Minnesota. Don't be fooled: It could make a big difference, and you should pay attention to what happens next Thursday.

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