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# Brexit: the EU Britain leaves is brittle to the point of fracture

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Illustration: Eric Lobbecke

Britain joined the European Economic Community in the turmoil of the 1970s. As its entry occurred, Australia embarked on the Whitlam experiment, which crippled our ability to adjust to the shocks that hit the world economy and condemned us to two decades of misery.

Forty years on, as Britain leaves the European Union in the turmoil of the 2010s, the question is whether we will repeat the mistake.

Just how durable the fallout from Brexit will be is inherently uncertain. But with the International Monetary Fund warning that world economic growth is “at risk of stalling”, the fragility of the global outlook is undeniable.

The plunge in the market valuation of major banks that followed Friday’s announcement will further reduce financial institutions’ willingness and ability to lend, dimming an already feeble recovery; the flight to safe assets that prospect has unleashed highlights investors’ fears and may make them self-fulfilling.

In a world where monetary and fiscal policy are well beyond the limits of their effectiveness, it is foolish to think governments can provide much shelter from the storm.

But it is the politics, rather than the economics, of Britain's departure that make the risks so severe. A line has been crossed: what was unthinkable has become possible, and with it, the world has changed.

After all, when the Community was established in 1957, the treaty that brought it into being made no provision for member states to withdraw.

It took until 1992, when the Treaty on European Union was signed, for an exit mechanism to be built into the Union's architecture but even then, it seemed inconceivable that it would ever be triggered.

That it has been reflects not just the myriad crises that have beset the Union but also, and perhaps especially, the manner in which they have been handled. Pascal Lamy, a former European Commissioner and erstwhile lieutenant of Commission president Jacques Delors, captured its essence when he said that because "the people weren't ready for integration, you had to get on without telling them too much about what was going on".

The edifice that attitude built was a Europe without Europeans. When times were good, that may have been fine; but when it was costs, rather than benefits, that were being doled out, the mutual trust that might have made the pain bearable was entirely lacking.

The Union Britain leaves is therefore brittle to the point of fracture. But to make matters worse, it is so unbalanced as to be unsustainable.

Originally, European integration allowed a rough equilibrium to be struck on the European continent. Reduced by World War II to half its former size, and no longer at the heart of Europe but on its easternmost fringe, the German Federal Republic saw the nascent Community both as cementing its place in the West and as the road to acceptance.

Sufficiently large to act as counterweights, France and Italy were willing to accommodate a Germany that was then only semi-sovereign, all the more so as the initial rounds of trade liberalisation sustained an unparalleled period of shared prosperity.

Now Italy is on the brink of being a failed state. As for France, with Francois Hollande almost certain to follow Nicolas Sarkozy as a one-term president, the quasi-monarchical regime de Gaulle thought could stabilise and modernise the ever-fractious French republic seems capable of neither stability nor modernisation.

The situation is consequently radically different from that which prevailed when Konrad Adenauer, who led the Federal Republic from 1949 to 1963, said that “German problems can only be solved under a European roof”.

Rather, it is Europe’s problems that can only be solved under Germany’s roof, and Britain’s departure will bring that fact into even starker relief.

Ultimately, that must prove as unacceptable to the Germans as it will be to their fellow Europeans, who are still reeling from Angela Merkel’s unilateral dismantling of Europe’s borders.

Whatever the continent’s future may hold, it cannot be the European Union as it stands.

However, the birth of a viable alternative is fraught with dangers. The UK’s referendum may not have many immediate imitators; but regardless of how the transition to Brexit plays out, anti-EU movements will rightly feel emboldened, compounding the tensions within Europe and making European governments ever less effective.

In a world already drowning in sovereign risk, that can only result in a bleaker and more volatile outlook. Whether we can cope with that outlook depends on our choices. The parallels to the Whitlam years are obvious.

Global turbulence called for prudent economic management and for market-oriented reforms. Instead, Labor’s fiscal recklessness was accompanied by a wages policy that made employing people unprofitable.

As “stagflation” gripped the world economy, those catastrophic decisions magnified the harm, shattering the lives and hopes of millions of Australians.

A Shorten government would, no doubt, be irresponsible in different ways.

What is certain, however, is that every syllable of the ALP's policy document reeks of a deteriorating fiscal position, a more rigid labour market and a proliferation of intrusive regulation.

Just as preserving business confidence becomes the key to continued growth, Labor's swerve to the Left, slavish dependence on the unions, reliance on support from the Greens, and commitment to higher taxes would damage our competitiveness and frighten global investors.

That Labor promises retrogression rather than reform is unsurprising. Bill Shorten has none of Whitlam's vision or grandeur; but he shows every sign of sharing the delusion, famously articulated by Whitlam's mining minister Rex Connor, that the Australian economy is "indestructible".

Yet if history has one lesson, it is that no economy is too strong to be destroyed. As the world adjusts to Brexit, whether voters understand that grim reality will determine our fate.