

IT IS TIME TO RE-IMAGINE EUROPE

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EU leaders face a fundamental choice in response to Brexit. Do they defend the existing institutions and arrangements or seek deep reform? The former will ultimately lead to the EU's disintegration, the latter would see a strengthened EU emerge from its decade of crisis.

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In the wake of the Brexit vote, Europe and the UK are heading towards a confrontation that neither will win. When one is at a point where there are no good options the best course is to create new options. That is what we must do now. Leaders in the UK and EU have a choice. They can frame the situation as a “divorce”, as a confrontational negotiation that will see Britain at least partially and perhaps fully ejected from Europe, the likely break-up of the UK, and the EU dramatically weakened or even potentially destroyed. Or they can seize on Brexit as an opportunity to re-imagine, reform and renew Europe. The challenge for European leaders is to create a new vision for Europe that voters not just in the UK, but in increasingly Eurosceptic France, Germany, Italy, Sweden, Poland, and many other countries, would positively want to join.

The Brexit vote has thus raised two essential questions: What will be Britain's new deal with the EU? And how can the EU reform to save itself? *The key to a successful outcome for Britain, the EU, and the West will be to align those two questions.*

At the core of this new vision must be the understanding that an EU of 28 diverse countries cannot survive with a single model of membership. The diversity of EU member states must be recognised and better managed than it is today. If Brexit provides the catalyst for reform in this direction, then not only will the EU survive, but it will emerge from its decade of crisis more economically dynamic, more democratically legitimate, and more politically unified. But if the response to Brexit is an attempt to defend existing arrangements and institutions, to “muddle through”, and cut a deal with Britain that simply minimises the damage, then the future existence of the EU is at risk.

This paper will outline a specific proposal for what a programme of reform might look like. There are many possible variations on the ideas discussed, each with strengths and weaknesses. The purpose of this paper is to provide a basis for discussion. It is also important to note that neither hard-core Leavers nor ideological Europhiles will be pleased with this proposal. Much compromise will be required on all sides. But with such compromise it is possible to imagine a programme of change that delivers the main political requirements of the Leavers, while at the same time addressing key tensions in the design of the EU.

The paper begins by assessing the power dynamics and negotiating objectives that will frame the EU-UK discussions, then outlines a reform proposal that potentially provides common ground in meeting those objectives. At the heart of the proposal is the idea that the EU needs to evolve to a two-track system with a “single market” core and a “common market” ring. Such a structure would enable deeper integration for countries in the single market core, while providing a more flexible structure countries in the common market ring. This would enable the EU to accommodate countries with differing political settlements on the trade-off between the benefits of economic integration and the pooling of sovereignty this requires. The paper will then briefly examine some of the implications of the proposal for different EU members (i.e. which countries might choose the core and which the ring and what that might mean), and how the proposal might be perceived politically in the UK and EU.

Brexit Power Dynamics

The fate of Britain’s relationship with Europe will ultimately be decided in the capitals of the EU and in Brussels, not in London. That is the harsh reality of the post-referendum power dynamics. Prime Minister Theresa May’s new government has pledged to trigger Article 50 in early 2017. When that happens the EU will hold all of the cards. At that point it will be up to the EU to accept or reject whatever proposals Britain puts on the table. If the EU rejects them, or simply does nothing, then at the end of two years Britain will automatically drop out of the EU and be on its own in the WTO. Britain’s preferential trade and financial services links to the continent would then be severed causing permanent damage to its economy and geopolitical position in the world. Under the Article 50 process, getting anything other than this worst case scenario will require active agreement by over 55 percent of EU national governments representing at least 65 percent of the EU population (and some countries also require domestic parliamentary or even regional parliamentary approval). Plus the European Parliament will have a veto over any deal, and the European Commission will have considerable influence. Just

getting an extension in the negotiating timetable beyond two years would require unanimous approval from EU countries. Given this process there is a high probability of an outcome with no deal and a hard Brexit. Donald Tusk recently warned that the choices are likely to be “hard Brexit or no Brexit.”

Some will argue that economic self-interest will ultimately overcome process and it is in both the EU’s and UK’s interest to agree on a deal to maintain trade flows and end the uncertainty caused by Brexit. However, the relationship is asymmetrical - 16 percent of EU exports go to Britain while 44 percent of British exports go to the EU. The bottom line is the EU is more economically important to Britain than Britain is to the EU. And finally, many EU politicians are wary of being seen as too generous to Britain for fear of encouraging populist Eurosceptic movements in their own countries.

Thus there are high hurdles for achieving any kind of agreement, let alone one that is favourable to Britain. The travails of other EU trade deals, including the Canadian deal and US transatlantic partnership, show how difficult achieving EU agreement on such issues is. The drafters of the Lisbon Treaty designed the Article 50 process to ensure that any leaving country would have very little leverage, and so it will be for Britain. This combination of negotiating process, economic asymmetry, and politics means that if there is to be any new deal at all, it will largely be on the EU’s terms.

A Fundamental Choice for EU Leaders

So the question then is what should those terms be? To answer this, EU leaders must ask themselves a fundamental question: *Is their objective to defend the existing institutions and arrangements of the EU? Or is their objective to preserve and advance Europe as a political and economic force for progress in the world?* These are not the same objectives, and which one the EU explicitly or implicitly chooses will determine its course.

If the answer is the former, to defend the existing arrangements, then the path is clear. EU leaders will frame Brexit as a “divorce” and seek to punish Britain for its decision. The strategy will be to scare voters in other EU countries from going down the same foolish path. Specifically, EU leaders will attempt to show voters that acceptance of free movement of people and other EU arrangements are the price they must pay for economic prosperity. The message is that listening to right wing populists and rejecting those arrangements leads to economic disaster. Under this

strategy, even if some deal on trade is eventually reached with the UK, it will be made clear that the UK has been made worse off by rejecting current EU arrangements and would have been better off staying in.

While there would be some schadenfreude from this path, and perhaps near-term political gain for some EU leaders, such an adversarial divorce will certainly leave both Britain and the EU economically and geopolitically weakened in the longer-term. But even more importantly, such a strategy will fail in its objective. It will not lead to the preservation of the EU in its current form, because its current form cannot be preserved. Such an approach will fail to address the fault-lines that existentially threaten the European project.

Divided We Fall

It has become increasingly clear since the creation of the euro, EU enlargement, and the 2008 crisis, that a one-size-fits-all EU does not work. The EU as presently constructed is riven with divisions: euro versus non-euro, creditor versus debtor, north versus south, and east versus west. Brexit has put into stark relief further chasms: those who are willing to accept the free movement of people and those who are not; those wishing “ever closer union” and those wanting to retain or regain elements of sovereignty; and those who feel they have benefitted from the EU, trade, and globalisation and those who feel they have been left behind. These are not just British issues, these fissures are opening up at varying speeds across the entirety of the EU. A recent Pew survey found that French and Greek voters are even more negative towards the EU than those in Britain. In Spain, Germany and the Netherlands barely half the voters support the EU. Almost every EU country has a populist, nationalist movement stoking the “take back control” message of Brexit.

If the goal is to doggedly hang on to the existing EU institutions and arrangements at all costs, the cost will likely be the eventual disintegration of Europe along one or more of these fault lines. It might not be Brexit itself that is the proverbial straw that breaks the EU’s back, but it might be the banking crisis now brewing in Italy and Germany, or the next Greek crisis, or another migrant crisis, or the take-over of a core member government by an anti-EU party, or some event yet to come. The sheer number of possible scenarios for EU disintegration has become so large and their individual likelihoods so high that the laws of probability make it almost a certainty.

A More Flexible Europe is a Stronger Europe

If, however, the goal is not preservation of the existing arrangements but rather the preservation and advancement of the founding ideals of the EU, then the space for solutions opens up dramatically. With leadership and imagination, Europe can be reformed to accommodate the economic and political diversity of its members. A more flexible Europe will be a stronger Europe. Flexibility does not necessitate an “à la carte” Europe, which leaders have rightly rejected. Any reformed EU must have integrity, be cohesive, and be fair in its division of rights and responsibilities. But one can imagine a new set of arrangements that would be more flexible whilst preserving coherence and fairness.

There are four principles that define the EU single market project: 1) free movement of goods and services, 2) free movement of capital, 3) free movement of people, and 4) a common currency. The first two of these are accepted by all EU countries, including Britain. It is the latter two where the problems lie.

It is clear that the free movement of people in Europe cannot survive in its current form. That is the political message of the Brexit vote, and is also the message bubbling up from growing numbers of voters across the continent. This is a very difficult message for committed Europeans. It challenges one of the most cherished principles of the EU. Without it one cannot have a truly integrated single market. And during this centennial of the Battle of the Somme we are also reminded that free movement plays a vital role in fostering the mutual understanding, peace, and European solidarity that the EU was founded to promote. But the unfortunate reality is that continent-wide concerns about immigration are undermining those very goals and are instead fostering nationalism and division.

The other fault line is the unfinished business of the euro. The euro crisis has created an imperative for a further pooling of sovereignty that requires completion of the banking union, tighter fiscal coordination, and increased transfers within the euro area to address the inevitable trade imbalances that develop between euro countries. Such deeper economic integration also requires further political integration, as described in the Five Presidents Report. Yet many EU countries outside the 19 country euro area do not wish to participate in this “ever closer union” and worry about their loss of influence over an increasingly powerful euro core.

Creating a Two-Track Europe: A Single Market and a Common Market

The solution to divisions over both the freedom of movement and the euro is to create a two-track Europe. This would make Europe more flexible and robust whilst maintaining its coherence. One track would comprise what today is called the single market and would pursue all four principles and the ever closer political union that these principles necessitate. The second track would comprise a group of countries in what could be called a common market. These countries would be committed to the first two principles - free trade in goods and services, and free movement of capital - but not to free movement of people or a common currency. The objective of the single market is to create a truly integrated economy, whilst the objective of the common market would be to create the world's best free trade zone. A single market requires a deep pooling of sovereignty. A common market requires deep cooperation, but a much more limited pooling of powers, it is a network of closely interlinked sovereign states rather than a single market.

The history of the EU over the past decades can be seen as a history of tensions between member states (and polities within states) seeking the single market objective versus those wishing to pursue the common market objective of a highly successful free trade zone. These differences in fundamental objectives have never been properly resolved. This has resulted in the EU splitting ad hoc into multiple tracks. Today there is an inner core of nineteen countries in the Eurozone, eighteen of which are also in the Schengen free travel area. Then outside of this core there are nine countries inside the EU but outside the Eurozone, with three also outside Schengen. There is then even a third ring with an alphabet soup of supranational arrangements: three countries in the European Economic Area (EEA) but not in the EU, four in the European Free Trade Association (EFTA) three of which are also in the EEA, another four in the EU Customs Union (EUCU), seven in the Central European Free Trade Agreement (CEFTA), and a further five in the Council of Europe. So we already have a multi-track Europe, it just isn't very well designed.

A committed European might object that explicitly splitting the EU into multiple tracks would destroy the idea of a single vision for Europe. But such a single vision has always been a myth. Europe has multiple visions and multiple tracks today, but within the structures of the EU this has not been explicitly recognised nor well designed. Attempts to pressure all countries into a single market vision have contributed to the tensions and divisions in the EU. Creating two clear tracks would recognise the different objectives and economic and political realities of different member states. It would significantly relieve the pressures that are tearing apart the EU.

A Balance of Responsibilities and Benefits

The proposal is thus for two clear, well designed tracks within the EU - a track for single market countries and a track for common market countries. All single market countries would also be in the common market, but not vice versa. Those in the common market track would not be “second class citizens” (as some countries outside the Eurozone feel they are today) but rather would have chosen a different set of arrangements than those in the single market track. Each track would have a set of responsibilities and benefits, and they would differ across the two tracks, but would be balanced and fair within each track.

The first track would continue the single market project along all four principles. It would comprise a group of countries committed to both the euro and the free movement of people, as well as the deep political integration this requires. Arguably it would be easier for this group to pursue the reforms it needs in such a smaller, more focused group with aligned interests. This group, with free movement within its borders, would also need to develop a workable common migration policy.

The second track would provide a more flexible structure for a group of countries committed to a common market but not to a single market. The second track would thus have free movement of goods, services, and capital (including the financial services passport rights much prized by London), but it would not include a shared currency or the automatic right to work and settle. In many ways this common market track would be similar to the pre-Maastricht European Economic Community (EEC), which we should remember was both economically successful and politically popular - even in Britain.

It is important to note that the new common market track would differ significantly from today’s EEA (known to Brexiteers as the “Norway option”), or other European free trading associations. These are all structures outside the EU that in varying ways provide access to the EU single market, but with essentially no meaningful participation in EU governance. What is being proposed here is a new set of arrangements *within* the EU’s governance structures, a re-conception of the EU itself.

Common Market, Common Rules

The track two common market countries would control their own currencies and borders, but would be deeply interlinked with the track one countries through free trade of goods, services, and capital. Such a common market would require common rules for these flows, so Leavers in the UK would not get the “bonfire of the regulations” they desired, but this was always a false promise. Most EU rules

would be replaced with UK rules anyway, and businesses want common rules across large markets, not islands of different and conflicting rules that they have to navigate. So while reducing unnecessary red-tape is always a worthy goal, common rules are fundamental to any kind of common market.

Free Movement of Labour But Not of People

It would also be in the interests of both tracks to maintain strong flows of people. It is important to note that with the exception of a xenophobic, racist minority, the feelings of most Leave voters were not anti-immigrant per se but rather anti-loss of control. Most Britains recognise that they are significantly dependent on EU nurses, plumbers, software programmers and strawberry pickers. Thus the challenge is to return a degree of national control over immigration to track two countries, whilst preserving strong flows of people across the EU.

A logical compromise would be to preserve free movement of people in the track one single market core, but shift the track two common market group to free movement of labor but not people. The distinction is whether or not an EU migrant has a job waiting for them in the country they migrate to. Track two countries would agree that if an employer shows they cannot fill a position nationally they would then be free to offer the position to an EU citizen who would automatically be granted a work visa. This would alleviate the two biggest concerns polling shows people have about EU migrants. First that they are taking jobs from locals (they wouldn't be if the employer showed there were no locals to take the job) and second that migrants come to claim benefits. EU migrants to track two countries would only come if they had a job waiting for them and would be ineligible for benefits for a period of time. Thus it would be clear that any EU migrants coming to track two countries would be working, paying taxes, and contributing to the economy. While the granting of work permits would be automatic, if the politics require it a cap on total numbers could be set as an emergency brake against an unforeseen surge of migration. Finally, while track one countries with open borders would require a common migration policy for non-EU migrants, track two countries could retain national control over non-EU migration.

It would thus be possible to address track two country voter concerns about immigration and political leaders could claim that they have taken back control of immigration, but still meet business needs for a skilled workforce. The track two work visa system could also be complemented by continuation of preferential passport queues, preferences for EU student visas, and other measures to ensure a continued healthy flow of people across the EU. While this would require significant compromise and not please either absolutist Leavers or Europhiles who see free

movement as an inviolable principle, it would enable track one countries to preserve free movement where there is political support, and track two countries to preserve economic integration where the politics of immigration are difficult.

Common Governance

A natural objection to this scheme is that such a two track EU would be a divided EU. It will thus be important to create governance structures that bind the single market and common market halves together. As all track one single market countries would also be in the track two common market (but not vice versa) the existing set of governance institutions (European Council, European Parliament, European Commission) could continue to meet in full (i.e. track one plus track two), but then would also carve out and meet in a track one group to address specific track one issues (e.g. euro issues, or freedom of movement and migration issues). Likewise, track two countries would continue to be subject to the European Court on matters related to the common market, but not on matters where they retain sovereignty (again, notably currency, immigration and related issues such as welfare benefits). There are of course broader questions about the complexity, effectiveness, and democratic accountability of current EU governance arrangements. But the key point is existing governance arrangements could be adapted to a two-track system, while longer-term reforms could also be pursued.

Continued Security and Judicial Cooperation

Another way that track one single market and track two common market countries would be bound together would be through a continuation of the Common Foreign and Security Policy, and Police and Judicial Cooperation. Even Britain's Brexiteers acknowledged the benefits of cooperation in these areas and pledged to continue them. There is, however, controversy in the UK about the European Convention on Human Rights (ECHR) and its European Court of Human Rights (Theresa May was a critic of the ECHR as Home Secretary). Membership in the ECHR is a requirement for EU membership, but the ECHR and its Court are separate Europe-wide not EU institutions, so any reforms or changes to these would need to be handled separately from EU negotiations anyway.

A Differentiated Budget

Contributions into the EU budget were a further hot-button issue during the Brexit campaign and are a sensitive issue for all EU countries. Under the two track proposal budget contributions would also be differentiated. All countries would contribute to the costs of running the common market since all would be members. Thus contributions that support the costs of the Commission's institutions that manage and regulate the common market would continue. Track two countries would also continue to contribute to and benefit from programs that support

common market development, such as research programs, or efforts to create an integrated European energy system, as well as provide funds to support foreign policy, security, and criminal justice cooperation. A common market also requires common agricultural and fisheries policies, so it is likely these would continue though potentially reformed as well. Development assistance for poorer EU countries or new EU candidates is also something that track one and track two countries would likely continue to share.

But only track one single market countries would contribute to and benefit from larger scale fiscal transfers between countries, primarily delivered through EU funded investment and development programmes. The logic of this is that a monetary union requires inter-regional transfers to correct the trade imbalances that inevitably develop (and which led to the Euro crisis). Arguably the Eurozone needs even larger inter-regional transfers than it has today. But such transfers would likely be more politically acceptable in countries such as Germany today if it was clear that they were specifically benefitting Eurozone members by promoting Eurozone stability.

The net effect of these changes would be that the headline gross contributions of track two countries such as Britain would drop, but the net contributions would not drop nearly as much as the Brexiteers would like. But the net contributions would be more clearly focused on supporting the common market structures and other areas of cooperation that Britain wants to retain access to and must pay its fair share to support. It is likely that the gross contributions of track one countries would stay roughly the same or might slightly increase (if fewer countries are sharing the same costs). But again the track one countries would pay the most in but also get the most back, while track two countries such as Britain would pay less in, but also get less back.

Which Countries Which Track?

If the EU created such a two track single market and common market system, which countries would likely choose which track? At least initially, the 19 Eurozone countries would automatically be in track one. They would continue in their current arrangements but have greater freedom to vigorously pursue the reforms the Eurozone needs to survive.

If the second track was created Britain would be the obvious first candidate for it as part of the Brexit negotiations. I will return in the next section to the specific political issues regarding Britain from both an EU and British perspective. But

which other countries might be candidates for track two?

Preventing Swexit

The most obvious candidates are Sweden and Denmark. Neither are in the euro, and both have increasingly Eurosceptic populations with growing right wing nationalist movements fuelled by concerns over immigration. A recent poll in Sweden showed 36% back “Swexit” while only 32% support remain. The creation of a common market track could be attractive to these countries, help address their political issues, and prevent a Scandinavian dash for the exit.

Addressing Rising Nationalism in the East

A harder challenge would be the central and eastern European countries who joined the EU during the 2004 and 2007 waves of enlargement. Countries such as Poland, the Czech Republic, Hungary and Romania are not in the euro, but benefit significantly from free movement of people (notably via remittances from their citizens working in other EU countries) and from EU transfers into the region. But while these countries benefit from the current arrangements they also have some of the strongest Eurosceptic and nationalistic politics in the EU - the current governments of both Poland and Hungary were elected on nationalist, anti-EU positions. The creation of two tracks would give these countries a clear choice. Either more deeply integrate with Europe by adopting the euro, agreeing to fiscal rules and other responsibilities, but continue to benefit from free movement and transfers, or “take back control” and shift into the trade focused relationship of track two. The current half-in, half-out politics, as in Britain, is not sustainable. Such a clear choice, each with a balance of benefits and responsibilities, would give greater democratic legitimacy to whichever path is chosen.

Greater Fairness for Germany and France

Such a clear choice between track one and track two would also help resolve tensions in countries such as Germany and France as well. Much of the German and French anti-EU backlash is fuelled by concerns over freedom of movement and transfers with the eastern and southern parts of the EU. By creating two tracks with balanced responsibilities and benefits, no one could be accused of free riding. Those eastern and southern countries choosing track one would for example have to live by EU fiscal rules while benefitting from the Euro, freedom of movement and transfers, while those in track two would have fiscal independence and strong trade ties, but lose freedom of movement and have reduced transfers. This would likely be seen by northern Eurozone countries as a fairer deal than the current arrangements.

New Options for Greece and Portugal

A two track system could also help resolve the ongoing issues in Greece and Portugal. To date the choice these countries have faced is either continued suffering under a set of policies that have decimated their economies, or an uncontrolled exit into the unknown. The development of a second track would create a new option for these countries. They could choose to continue to fight to stay in the track one Eurozone if they judged the long-term benefits worth the near-term costs. Or they could decide to make a planned and gradual transition to track two. While such a transition would have its complexities, notably re-introducing a national currency and dealing with accumulated debts, because the new destination and arrangements would be clear and defined in advance, it could be done over time in a controlled fashion, maintaining or even boosting economic confidence. Not only would this give these countries a new and potentially attractive option, again it would help resolve political tensions in countries such as Germany and France where issues with Greece and other debtor countries have fuelled much anti-EU angst.

A New Path for Enlargement

The proposal could also help address issues around further EU enlargement. Track two would be the obvious first destination for any new EU country. Without freedom of movement and large scale transfers, and with a focus on trade, one could more easily imagine countries such as Serbia, Albania, Turkey or even Ukraine joining. There would still be high hurdles to clear, but they would be political and institutional, e.g. human rights, democratic accountability, judicial independence, etc. rather than economic.

Even Norway or Switzerland Might Join

This proposal could also provide an attractive option for some of the EU's traditional hold-out cousins such as Norway, Iceland, and perhaps even Switzerland. For Norway and Iceland, track two would be a clear improvement over their current EEA arrangements which require freedom of movement and large budget contributions with almost no governance participation. For Switzerland track two would enable them to retain sovereignty in key areas while consolidating their current ad hoc trading arrangements and gaining a greater governance voice as well.

So while some might argue that a division of the EU into two tracks would lead to its eventual break-up, a more likely course is it would eventually result in a larger and stronger EU.

What if a Eurozone Country Chose Track Two?

The final and hardest case would be what if one of the core track one countries, say France or the Netherlands both with growing Eurosceptic movements, wanted to move to track two? One answer is this could simply be banned - one could say that only current non-Eurozone countries are eligible for track two. But this would be a profoundly undemocratic answer. One of the EU's greatest challenges - arguably its greatest - is its democratic deficit, the feeling it is a project foisted by the elites on the people of Europe. This is why the "take back control" message of Brexit resonates so strongly across the continent. Ultimately, participating in a single market, with the pooling of sovereignty, common currency, and free movement of people that it necessitates, must be a democratic choice. Citizens, and not just elites, must see and feel that the benefits outweigh the costs. If the benefits of the single market do in fact outweigh its costs, as its proponents claim, then citizens will ultimately support it. But if they do not then their leaders have a duty to give people a choice other than economic and geopolitical chaos. Again, while a transition from track one to track two would be complex and difficult, it would not be impossible, and if done in a managed and gradual fashion need not result in long-term economic damage.

A committed Europhile might look at this proposal in horror and ask, what if all of the current Eurozone core - France, Germany, Italy, and Spain - saw track two as more attractive? It would mean the end of the euro, wouldn't that be terrible? One can argue that the creation of two tracks makes survival of the euro more likely not less. The euro remains popular across most of the zone and the creation of two distinct tracks would give the track one countries a clear path to pursuing the reforms the euro needs to survive and deliver the benefits it promises. But imagine an extreme case where track two was viewed as so attractive that all of the countries in the EU chose it. Why would we stop that? It is the job of democratic polities to judge and balance trade-offs between retaining sovereignty to keep democratic accountability, and pooling sovereignty for economic and other benefits. Such an outcome would simply be saying that the elites got the balance post-Maastricht wrong and the citizens want to shift the balance back. An all track two EU would still be an EU, it would just look more like a pre-Maastricht, pre-Lisbon EU than it does today - and we should recall that the EU (or European Community as it was then called) was quite successful for 35 years before Maastricht. While such an outcome is quite unlikely, even such a "worst case" would be significantly preferable to either an EU in continuous crisis (which is what we have today) or a total collapse of the EU, which what we risk now.

Again, we should note that such extreme scenarios are very unlikely. The more likely scenario is that countries would self-select over time into track one and track two based on their national democratic politics and assessment of their national

self-interest. Most if not all Eurozone countries would commit to track one. But this better matching of politics, interests, and structure would lead to a far more stable EU than the one we have today.

A Solution for Britain

If such a second track was created, it could be offered to Britain by the EU as part of the Brexit negotiations following the triggering of Article 50. Britain could then make a positive decision to join this new common market track. While this new track would not satisfy the demands of the most extreme Leavers who want nothing less than a total break from Europe (and who are in denial over the economic and geopolitical disaster this would be for Britain), it would satisfy the main political requirements of the referendum result. The two central pledges of the Leave campaign were greater national control over immigration and reduced EU budget contributions. While Leave leaders were firm on these two requirements, a solid majority of Britons, including a large number of Leave voters, still want to retain access to the European market and maintain cooperation on security and other issues.

In the current EU construct of the single market these demands present an irreconcilable contradiction - one cannot have a true single market without free movement of people and significant fiscal transfers. But creating a new common market track breaks this contradiction and creates a structure that can accommodate countries like Britain, who want to participate in what would be the world's best free trade zone, but do not want either the responsibilities or benefits of a true single market. As noted the balance of responsibilities and benefits in track one and track two would be different, but they would be fair within each.

The most extreme Brexiteers would cry foul, claim that track two is not truly Brexit as it is not really "leaving Europe", and argue that this is remaining by a back door. Indeed, under this proposal Britain would technically remain a member of EU, albeit under very different arrangements. But such an outcome would be entirely consistent with the result of the referendum. The choice put to voters was to maintain the status quo, or instruct the government to negotiate some new, yet to be defined set of arrangements with Europe. The choice presented to voters was "current arrangements" or "not current arrangements". The Leave campaign did not offer any specific plan or details on what those new arrangements would be. Just as Paul Simon once sang there are "50 Ways to Leave Your Lover" there are at least 50 ways to "Leave" the current EU, ranging from an EEA "Norway option" (which is much closer to the status quo than what is proposed here), to a total exit into the

WTO with no deal. Thus joining a new common market track would satisfy the main political demands of the Leave vote to negotiate a new set of arrangements that increases control on immigration and budget.

Due to the undefined nature of the Leave mandate, whatever deal is ultimately reached should be put back to British voters in some form, most likely through a general election where the governing Conservative party would make enactment of the new deal a manifesto pledge. That way the British public would be making a positive decision to join the new arrangements, giving them lasting democratic legitimacy. Again, while a two track solution would satisfy neither the most ardent Leavers or Remainers, it would provide a new settlement with Europe that would satisfy the broad political centre and would likely be enthusiastically embraced by the public. In contrast, only a sub-set of Leavers support hard Brexit and no Remainers do, so it is unlikely that a hard Brexit would have support of a majority of the population, it would certainly be opposed by business and other constituencies, risks sharply negative economic consequences, and would thus be politically riskier for the Conservatives.

Such a track two offer to Britain would also serve the very important purpose of keeping the United Kingdom united - a priority Theresa May highlighted in her inaugural speech as PM. A common market track would likely satisfy the desires of Scottish and Northern Irish voters to maintain strong links with Europe. In fact it might be one of the few solutions that could conceivably satisfy both mainstream English Leavers and Scottish and Northern Irish Remainers.

A Solution for Europe

It is not hard to see how a two-track Europe would solve the UK's Brexit problem. In essence it would accede to the UK's core demands - regaining control of immigration and reducing budget contributions, whilst maintaining market access. But why would the EU "give in" to these demands? Why should the EU restructure itself in such a fundamental way to clean up Britain's self-created political mess? And won't it just encourage right wing populists and more Leave votes across the EU?

While these questions are understandable (as is the anger felt in EU capitals and Brussels), they miss the message of the Brexit vote. The vote was not the cause of a crisis in the EU, it was the *symptom* of multiple crises that have been brewing and festering for decades. Again it comes down to a fundamental choice for EU leaders - defend or reform.

Defending the Current Arrangements Will Not Work

If one takes the path of defending the current arrangements (and thus requiring Britain either to fit into those in some way or truly leave) then one must believe that such a defence will actually work. To believe that, one must believe two further things. First, one must believe that playing hardball with Britain will scare voters in other EU countries into changing their views, thus stopping the rise of euro-scepticism and nationalism. While polls showed some near-term bump up in pro-EU sentiment in some countries following the chaos of the UK vote, longer-term this is an absurd belief. The causes of rising euro-scepticism and nationalism are concerns among large groups of voters about uncontrolled migration, economic stagnation, growing inequality, distant and undemocratic EU institutions, and an elite that is out of touch. How would punishing Britain change any of these issues? Second, one must believe that the existing EU institutional arrangements will work without major structural reforms. Again, the evidence against this belief is overwhelming. The EU has been in a state of near constant crisis for almost a decade.

Muddling Through Will Not Work

Consistent with other recent crises such as Greece and migration, the most likely path the EU will take with Brexit is a “muddle through” approach. There will be a phase of political theatre where both sides stake out hard-ball positions. But then both sides will see it in their mutual interest to compromise. A reasonable guess as to what such a deal might look like would be “EEA minus” - the UK would leave the EU but have a trade deal on goods and services and continued cooperation in security and other areas. The key “give” from the EU would be freedom of movement (thus EEA minus) which the UK has made a red line. But the UK would then have to lose something significant in return for this EU “give”, for example its financial services passport rights (by positioning it as a choice between free movement and financial services, the EU could create a nasty split between anti-immigration and pro-business Conservatives). The specific horse-trading of such a muddle through strategy is hard to predict, and as noted earlier the potential for no deal is also a very significant possibility. But the most likely landing point would be a deal that makes Britain moderately worse off (showing the EU got something) but preserves some trading relationship with the EU and enables the Leavers to declare victory and claim they had delivered on the referendum mandate.

While such a muddle through compromise might be acceptable to British leaders, it is harder to see why the EU would want to go down this path. It would remove the immediate crisis of Brexit, but it would not solve any of the EU's fundamental problems. As with the EU's other crises it would kick the can down the road. Such an ad hoc deal would only create more incentives for other countries to follow the

same route, rewarding Eurosceptics with political power and brinksmanship with compromise. And such an ad hoc deal would only further reduce the coherence and political integrity of the union. A number of such ad hoc exits would be far riskier than the construction of a new European track.

Only Deep Reform Can Save the EU

Seen in this light, the current default path of hard-ball followed by muddled compromise would be the path of “giving in” to British Eurosceptics. And ultimately it would fail in the goal of preserving existing EU arrangements. Restructuring the EU into two coherent, balanced and fair tracks and offering that option to Britain and other countries would not only solve the Brexit problem, but it would create a more flexible, robust, and likely larger EU. It would not solve all of the problems that EU voters face - the issues of populations left behind by globalisation and technology change are far broader than questions of EU structure. But such a renewed, strengthened and more democratically legitimate EU would be in a far better position to address those fundamental issues.

Creative Efforts Commensurate with the Danger

As the muddle through scenario shows, at present none of the options for British leaders are good. The process and power dynamics give them very little leverage, and their choices are varying degrees of trade-offs between economic pain and regaining elements of “control”.

But none of the present options are good for the EU either. They are varying degrees of trade-off between more messy ad hoc compromises that further undermine the integrity of the union, and losing the EU's second largest economy and largest military power. Plus the tensions of the negotiations will exacerbate the EU's existing schisms, distract it from desperately needed reforms, and the period of uncertainty will further damage its fragile economy.

As said in the paper's opening, when all options are bad, the only solution is to create new ones. A restructuring of the EU into single market and common market tracks would create new options. The EU is a political creation, its structures are not fixed in stone, it has changed dramatically over its 65 year history.

The founding document of today's EU, the 1951 Joint Declaration of the Treaty of Paris opened with the following statement: “...world peace can only be protected by creative efforts commensurate with the dangers which threaten it”. Today more

than ever the EU needs creative efforts commensurate with the dangers which threaten it.

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