

Little England or Great Britain?

Cover Story of the Economist November 9th 2013

The country faces a choice between comfortable isolation and bracing openness. Go for openness

Asked to name the European country with the most turbulent future, many would pick Greece or Italy, both struggling with economic collapse. A few might finger France, which has yet to terms with the failure of its statist model. Hardly anybody would plump for Britain, which has muddled through the crisis moderately well.

Yet Britain's place in the world is less certain than it has been for decades. In May 2014 its voters are likely to send to the European Parliament a posse from the UK Independence Party, which loathes Brussels. Then, in September, Scotland will vote on independence. In 2015 there will be a general election. And by the end of 2017 --- possibly earlier --- there is due to be a referendum on Britain's membership of the European Union.

Britain could emerge from all this smaller, more inward-looking and with less clout in the world (and possibly with its politics fractured). Or it could become more efficient, surer of its identity and its place in Europe and more outward-looking. Call them the Little England and Great Britain scenarios.

The incredible shrinking nation

In many ways Britain has a lot going for it right now. Whereas the euro zone's economy is stagnant, Britain is emerging strongly from its slump. The government has used the crisis to trim the state. Continental Europeans are coming round to the long-held British view that EU should be smaller, less bureaucratic and lighter on business. There is even talk of deepening the single market in services, a huge boon for Britain.

London continues to suck in talent, capital and business. Per person, Britain attracts nearly twice as much foreign direct investment as the rich-country average. That is because of the country's history of openness to outsiders --- a tradition that has mostly survived the economic crisis. Although the British are hostile to immigration, they

excel at turning new arrivals into productive, integrated members of society. Britain is one of only two EU countries where fewer immigrants drop out of school than natives. (Its most worrying neighborhoods are white, British and poor.)

But this could all fall apart in the next few years. The most straightforward way Britain could shrivel is through Scotland voting to leave the United Kingdom next September. At a stroke, the kingdom would become one-third smaller. Its influence in the world would be greatly reduced. A country that cannot hold itself together is scarcely in a position to lecture others on how to manage their affairs.

The referendum on the EU was promised last year by the prime minister, David Cameron, in a vain attempt to shut up the Little Englanders in the Tory party and ward off UKIP; Ed Miliband, Labour's leader, may well follow suit. If Britain left the EU, it would lose its power to shape the bloc that takes half its exports. And, since Britain has in the past used that power for good, pushing the EU in an open, expansive, free-trading direction, its loss would be Europe's too. To add to the carnage, the plebiscite could break up the Conservative Party --- especially if Cameron fails to get re-elected in 2015.

Britain could also become more isolated and insular simply by persisting with some unwise policies. As our special report this week shows, the government's attempts to bear down on immigrants and visitors are harming the economy. Students, particularly from India, are heading to more welcoming (and sunnier) countries. Firms find it too hard to bring in even skilled workers, crimping the country's ability to export. Mr Cameron has made some concessions: it is now a bit easier to get a British visa in China, and he backed down on a mad plan to demand large bonds from visitors from six emerging markets, lest they abscond. But Britain's attitude to immigration is all wrong. It erects barriers by default and lowers them only when the disastrous consequences become obvious.

No Europe, no Scotland, split party --- nice one, Dave

The shrinking of Britain is not preordained. In a more optimistic scenario, Britain sticks together and stays in Europe, where it fights for

competitiveness and against unnecessary red tape. British pressure gradually cracks open services markets, both in the EU and elsewhere, creating a bonanza for the country's lawyers and accountants. Britain becomes more tolerant of immigration, if not in love with it. It even stops bashing its biggest export industry, financial services.

The difference between the Little England and Great Britain scenarios is leadership. Mr Cameron should start by changing the thing over which he has most control: immigration policy. A more liberal regime would boost business, help balance the nation's books and shrink the state, relative to the size of the economy. Immigrants, especially from eastern Europe, produce far more than they consume in public resources. Both Mr Cameron and Mr Miliband know this, but they are cowed by widespread hostility to the influx.

Europe is another issue where they should try to lead public opinion, not cravenly follow it. Mr Miliband's policy is unknown. Mr Cameron has lurched alarmingly, sometimes saying Britain is committed to reforming the EU for the good of all, at other times threatening to leave if unspecified demands are not met. The first course is the astute one --- both less likely to lead to a calamitous British exit and more likely to succeed in making the union more liberal.

On Scotland, Mr Cameron and Mr Miliband are on the side of Great Britain. But it is a decision for Scots. Although a Hibernian state could more or less pay its way to begin with, assuming that it was able to hold on to most of the North Sea oil-and-gas-fields, that resource is drying up. An independent Scotland would be too small to absorb shocks, whether to oil prices or to its banks. And the separatists cannot say how the country could run its affairs while keeping the pound. For their own sakes, Scottish voters should reject their political snake-oil.

Britain once ran the world. Since the collapse of its empire, it has occasionally wanted to curl up and hide. It can now do neither of those things. Its brightest future as an open, liberal, trading nation, engaged with the world. Politicians know that and sometimes say it: now that they must fight for it, too.