Beyond Brexit: Britain, Europe and the Pension Wealth of Nations

The World Pensions Council's M. Nicolas J. Firzli warns the UK to tread slowly following Brexit, as one-nation Tories will try to get a 'better deal' first

William Butler Yeats wrote 'Aedh Wishes for the Cloths of Heaven' in 1899, to mark what he thought would be the beginning of a new era in European culture and civilisation: 'Tread softly because you tread on my dreams' says the poet. By voting to leave the European Union on 23 June, Britain has shocked the EU establishment and treaded abruptly on the delicate dreams of pensive EU-utopians across the continent. On 29 June, the leaders of the union's 27 remaining member states gathered in Brussels to stage theatrically their 'concerted riposte', insisting 'Britain make a quick exit' by activating 'immediately' Article 50 of the Lisbon Treaty, formally starting the two-year period leading to withdrawal.

Of course, it will be in England's national interest not to move fast in the coming months: London needs to obtain first written reassurances on the 'free movement of goods, capital, services' from the part of Brussels before invoking Article 50. And the longer the UK waits, well the more political pressure on the Anglophobe faction led by Martin Schulz, a failed Socialist publisher from the Rhine Province (Marx's home state) turned President of the EU Parliament and Jean-Claude Juncker, the ridiculously rigid President of the EU Commission. Britain must use this deliberate delaying tactics to hammer the message that free trade with the UK should be construed as totally separate from 'the free circulation of people' and the forced 'contribution to the EU budget' (a stealth tariff). In this long struggle, Britain will have many allies amongst Dutch, Danish, Swedish and Central European member states (except Poland) who all resent Germany's heavy-handedness.

Who knows? By temporising indefinitely to defend its economic interests, the new UK government may well change the course of European history and finally force the EU establishment itself to reform the rigid Maastricht/Lisbon constitutional framework, thus giving more leeway to Britain and other economically-dynamic Northern and Central European nations and allowing a more nimble union to focus on the free trade of goods and services without undue bureaucratic burdens, modern antitrust law and stronger external borders, leaving the rest to member states (the far more efficient 'European Community' model, conceived by Winston Churchill and Jean Monnet, the Anglophile 'chief architect of European Unity').

Asset ownership and the real balance of power favourable to Britain

Freed from the ever-tightening grip of EU directives that are corroding English common law and burying British companies under piles of poorly planned regulations, the UK economy will be free to pursue a more dynamic growth trajectory, unleashing the full potential of British workers and entrepreneurs. The UK will also have the opportunity to deepen its longstanding, privileged economic ties with rapidly growing jurisdictions such as Australia, Canada, India, Singapore and Hong Kong (all growing much faster than the EU average – *see chart*), without being

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hindered by Brussels or Berlin.

In our model *[see chart]*, the average annual growth rate is shown on the X-axis. The 'Decorrelation from EU-Core' index, shown on the Y-Axis, is a composite economic, monetary and legal/regulatory indicator summarising the overall macro-political distance from 'Core-EU states', defined as Germany, France, Italy, Belgium and Luxembourg (the original members of the 1958 European Coal and Steel Community, with the exception of the Netherlands). For all practical purposes, the 'EU-Core' is synonymous with all Western European Eurozone countries including Spain and Portugal – except Ireland, Malta, the Netherlands and Denmark (whose currency is pegged to the euro).

Our research shows that a trade war with London is clearly in no one's interest in Europe, and Britain may have a stronger hand than it seems in future negotiations. The total market capitalisation of UK companies is larger than the combined market caps of the Frankfurt and Paris bourses, and, more importantly, assets owned by UK pension funds are more than 11 times bigger than those of all German and French pension funds put together *[see chart – the relative size of a country's pension assets is indicated by the size of its national flag]*.

Put simply, Britain is by far the number one client of most Mainland European investment bankers, asset managers and insurers (not to mention German car and French wine exporters): if need be, at the first hint of threat to the City of London, Her Majesty's Government should be in a position to respond very forcefully, bringing Brussels to reason rather rapidly…

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Economic Dynamism and National Pension Wealth: 'EU Core' vs. Other OECD Countries

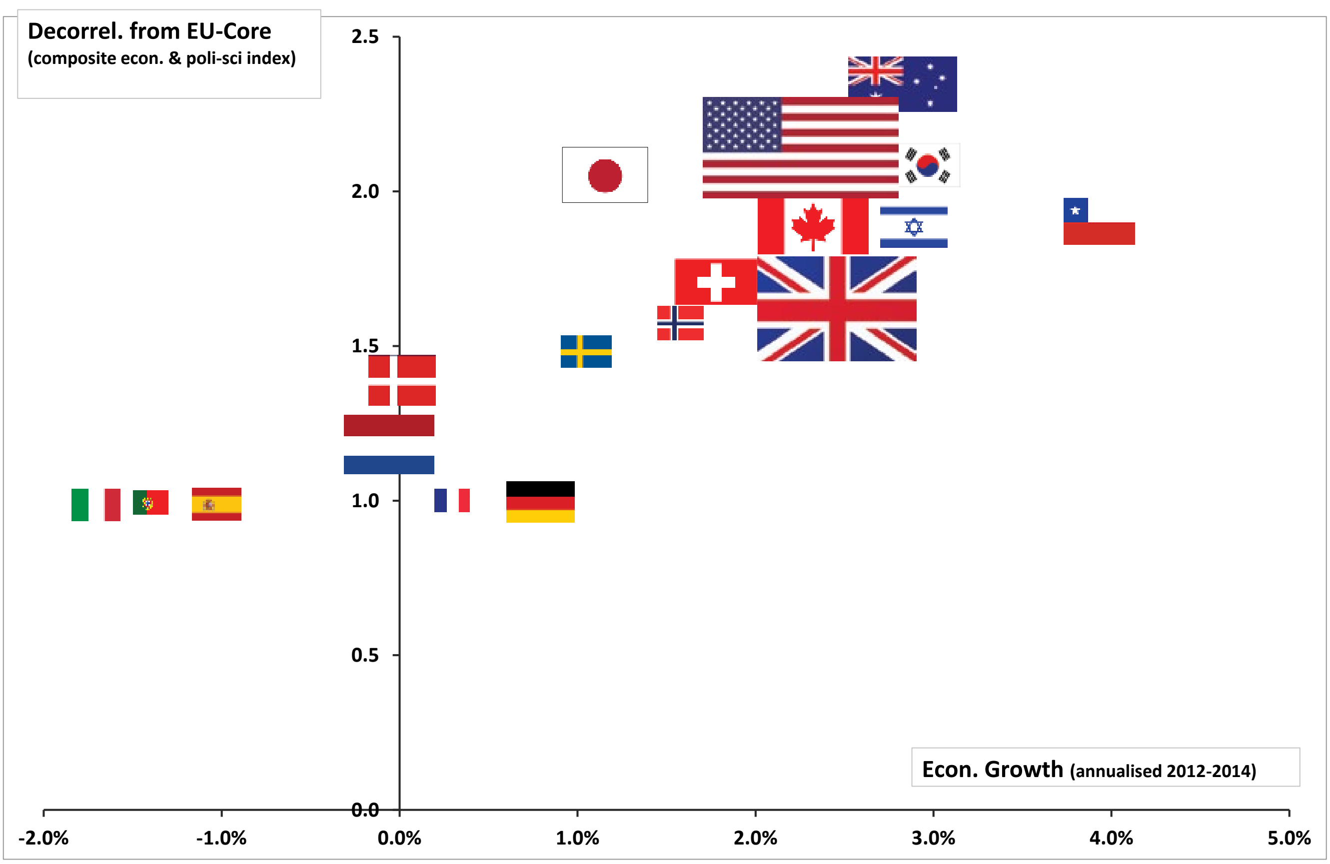

Chart legend:

- **Economic Growth** (x-axis): average annual growth rate of GDP (2012-2014). Source: World Bank national accounts.
- **Decorrel. from EU Core** (y-axis): composite economic, monetary and legal/regulatory indicator (see further description in Section 2). Source: World Pensions Council (WPC) proprietary estimates and the author's recent contributions to Euromoney Country Risk ratings (30 June 2016)
- **National Pension Assets** (flag size): OECD Pension Markets in Focus, 2015 (2014 data); the relative size of US and UK pensions being actually bigger than represented here; Norway data not counting the country's sovereign wealth fund