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BREXIT SENDS SHOCKWAVES: WHAT NOW?

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PROCEEDINGS

MS. HILL: Ladies and gentlemen, can everybody hear okay? Yes, just checking the mics. For those of you who are sitting at, standing at the back rather than sitting, there are seats here in the front. I can promise you that in spite of the tumultuous events the last few days, we on the panel, at least, don't bite, so please come and hit down here.

Wow. It's been a pretty good turnout for this event. Perhaps not so surprising considering the events of late last week.

I'm Fiona Hill, the director of the Center on United States and Europe, and I have a confession already. I'm from the northeast of England, and every one of the places that I'm from, all of them voted to leave.

So if any of you want to know some of the motivations, I can at least give some anecdotal as well as, perhaps, some informed analysis on that one.

My mother, who is 82, is beside herself. She woke up the next day. Didn't know anything that had happened. It turns out that all of her neighbors had voted to remain, and was I who broke the news to her in the afternoon. And she said why did all these old people vote to remain, or vote to leave? I don't get it. So, anyway, I have to explain to my mother now what's been going on as well.

I have with me an old Brookings representation. Because this vote has had so many reverberations, we felt that it would be incumbent upon us to pull together a panel who could talk about this much more broadly. We at Brookings have been filling up our blog pages with an awful lot of commentary on this.

If you go to the Brookings website, you'll see a lot of articles including by my colleagues here on the panel. This event is going to be live webcast. You can follow it on, you can also tweet. I think some of our colleagues here are going to be tweeting, speaking here at hashtag #Brexit.

And there's so many representations from embassies from around D.C. here, and we want to do this much more conversationally.

So I have here on the panel with me Aaron Klein from our Economic Studies Program. Aaron actually worked for the Treasury, so Aaron will be our go-to person for all the questions about how

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this might have an impact on the U.S. economy, many other topics as well.

My colleague from the Foreign Policy Program, Tom Wright, who has been writing a great deal about this. Tom is originally from Ireland, and you can be sure that the Irish have a particular perspective on this as well.

We've actually got some people in the audience, including Tom Arnold from the Institute of International and European Affairs of Dublin, who happened to be in today, and we drug him along to be to the event before he gets on a plane to go back to Dublin. So I might bring him in also to the discussion.

And then Homi Kharas, who also, like myself, is actually also British though he has been talking about the lack of utility of his British passport now that he used to use for traveling to Europe. And he used to work for the World Bank, and Homi is going to give us sort of an insight into how this has had an impact on global economic issues.

But I thought that I would start first of all with really asking Tom about some of his thoughts on how this going to play out. We're all sitting here at a time when both of the main British political parties, the Conservative Party and the Labor Party, are in a leadership crisis as a result of the referendum.

Many people, of course, asking what on earth was David Cameron thinking in holding this referendum in the first place. But Jeremy Corbyn, the Labor leader, who was also supposed to be campaigning for remain, has come under an awful lot of flack from his parliamentary party for putting what was seen to be a very halfhearted effort into the remain campaign, and also from his grass roots, many of whom voted to leave. So both of the leaders of the main political parties are in trouble.

There's an awful lot of questions about this is going to play out in British politics. There's also the fact that Scotland and Northern Ireland voted rather clearly to remain within the European Union. Wales, where Welch nationalism has actually remained quite a force, actually had an interesting, although there was the vote to leave EU along with most of the larger constituencies outside of London and some of the university centers in England. The vote there was a little bit more ambiguous. There were parts of Wales that reported to remain in the EU, Cardiff. And Plaid Cymru, the Welsh nationalist party was actually more in favor at least in some of the expressions that they had about remaining in the

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European Union. Of course, Welsh Party were also talking about remaining in.

So a lot of complicated questions to be resolved. Britain is clearly going to be in a state of domestic turmoil. And that's also going to have an impact on how the negotiations flows with the European Union. We just had the meeting in Brussels, and David Cameron with the European leaders, meetings of the European parliament, and meetings at the top level of the European Union. This was the week that was suppose to unveil EU's global strategy about how the EU was going to be a global actor, and this has become a global actor (inaudible) in the road that it intended.

There's a big debate now in Brussels as to whether Britain should leave quickly, or whether there should be a little bit of a pause. There's certainly been a pause from some of the British politicians about how they should go next.

So, Tom, how should we be looking at all this? You've written several pieces in the last couple of days about maybe slowing down something of the process, asking some of the questions about whether it (inaudible) contagion. I have here, many of you might have seen Maureen Le Pen's op-ed about the liberation, the People's Spring, talking about the EU as the prison of people, quite remarkable statement.

So how do you see some of this playing out?

MR. WRIGHT: Thanks, Fiona, and it's great to be here. I think I would just start by saying, you know, the really remarkable thing about this was despite the fact that the opinion polls were very close, and despite the fact that Eurosceptic feeling in the U.K. has been very high for a very long time, and despite the fact that a week before there was this terrible tragedy that people thought might sort of motivate the remain voters to turn out in greater numbers.

Despite of all of that, everyone, essentially, expected that the remain vote would win. I mean, people did not think that there would be a leave vote, not least the leave campaign that seemed completely shocked when they actually won.

I mean, on the night of the referendum Nigel Farage conceded the result before the count even started. And then later on in the evening gave a speech at quite, you know, quite a victorious sort of speech claiming victory. But Boris Johnson and Michael Gove were nowhere to be seen essentially.

And so what transpired over the next few days was that there no leave planned. There

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was no 100-day plan to reassure Europe and the markets.

Michael Gove, one of the leaders of the leave campaign, his wife wrote an article today in the Daily Mirror or some such paper where she said that they were completely shocked when David Cameron announced his resignation. They assumed he would continue on in office, and that was never the intention.

So what essentially happened when this result was announced is that the leave campaign found themselves in an incredibly important position, but with no actual plan. And then the things that the remain campaign said would happen, which my colleagues will speak about in a minute I'm sure in the markets, all turned out to be true. There was a collapse in the price of the pound that tracked the result being announced, and there was doubt about investment in the U.K.

And so all of these pressures began to go kicking fast. And here we are a few days later, and there really is no plan. Boris Johnson was meant to outline it in an article, a paid column, in the daily telegraph a couple of days ago, and he did it, it sort of didn't meet expectations, and then yesterday he said he was sort of tired and emotional writing about it, and not to read too much into the article. This is the guy who's leading, you know, the campaign. This (inaudible) to outline like his grand plan for how of this work.

And as you mentioned, Fiona, the Labor Party is in a state of utter collapse, while the parliamentary party looks like it's going to split from the actual labor party and go into being an independent party. That's one real outcome if Jeremy Corbyn manages just to retain the leadership despite having lost a vote of confidence by 172 to 48. Eighty-one percent of his parliamentary party opposed him.

And on the conservative side, there's a leadership contest in a few months. So I think that is, you know, that's a spectacle that is quite worrying, because whatever position you're in, you want to see some sort of stability.

But in Europe, I think there is a division too. It's not quite as dramatic. The division is between those who, as you said, want to go quickly, to have an exit, to have Britain trigger it's article 50 process maybe to punish Britain or give it a bad deal so it will turn to others.

And then the voices of caution like Angela Merkel, who want a slower process to buy

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some time to see if there's if not a way out, a way to sort of cushion the fall, and there may be, at some future there may be away out, and there's a division on that particularly between some of the EU Commission leaders and the EU leaders, and the EU leaders, and then the leaders of the European member states. And I think the member states side will probably, and would have in the end.

But it's a very sort of volatile moment. There is a role I think we'll get to later for the U.S. in all of this too, but I think it's, you know, markets, I think that political classes are very jumpy today.

MS. HILL: Well, Homi, from looking at the much bigger picture in this, you know, obviously, there was a lot of surprise in many places at the outcome here. There seems to have been something of a market recovery, at least maybe a readjustment to what's happened.

I mean, how do you foresee this playing out, and, you know, for what different reasons over the next several months on a more greater scale.

MR. KHARAS: Well, I think for developing countries, which is what I really focus on, and for poor people in developing countries, you know, yet again, here is a event which will affect them considerably, materially, and on which they have no voice, and no say.

And so, you know, if you just look at very short-term impacts, the U.K. is a big economy, and the U.K. is a very large donor, aid donor, and they give, roughly speaking, 12 billion pounds. Used to be work about \$18 billion. Today that's worth about \$16 billion. So right off the bat we've lost \$2 billion dollars of aid which is no small amount, and especially for the people who were, you know, on the receiving end, and there's not much that you can do about those budgets. Developing countries have \$1.5 trillion dollars of sovereign debt denominated in dollars. What happens when there's uncertainty in global markets? The dollar basically strengthens and rallies. Difficult to estimate exactly what the cost of that will be, but again, it will be several billion dollars.

What else happens? Risk premia have gone up. Flight to safety. Where is safety? It's not in developing countries. All these developing countries facing higher borrowing costs.

Next thing that happens, stronger dollar, commodity prices go down. All of them are losing from their commodity exports. If, as many people predict, the actual economies start to grow less rapidly, trade will grow slower.

You know, layers on layers of these effects. Of course, they depend a lot on what will actually happen in

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terms of the management of the exit, but developing countries are basically places that live on the periphery of the global economy, and when the global economy becomes shaky, their economies become shaky. They feel it first, and they have fewer instruments at their disposal to be able to cushion some of these shots, so the impact of the shocks is higher.

So I think that if we accept that we're likely to be in an environment where there is going to be some uncertainty about the global economy and the global politics, and how all of this will essentially play out, it is going to be a rough period for many of these countries, and that's without even thinking about, well, these really strong places for the poor which were represented by the U.K., will they still be as strong, or will political attention, perhaps, be diverted to other issues. All of those things just come on top of these things, and, you know, development as an agenda in these situations always gets pushed down to the bottom, and then it's the poorest people who suffer and are to some extent left to bear, completely unintended, of course, but some of the, some of the consequences of these actions.

MS. HILL: But this is a really important point about we're thinking about the political contagion that might happen in France, or the Netherlands, or other countries that might have a referendum on EU, but it's this kind of contagion that goes beyond the markets that we also should be paying attention to.

There's two aspects of this that I wanted to push you on a little bit. One is the issue of remittances. I mean, this was actually one of the interesting articles that I saw recently. I was given a breakdown of all of the countries that remittances were going to from the United Kingdom, because you're talking about more formal state aid from the department that does international development in the U.K., which has been pretty generous.

There was a very strong outreach and successive (inaudible) to Africa in particular, but what was the most interesting to me was the large amount of remittances to Nigeria, and then afterwards to countries in the old British Commonwealth. There were not large numbers of remittances going to Poland, Rumania, you know, Bulgaria, or any of the places that have become the focal point of ire within this debate.

Some of the anti-immigrant sentiment that did come out as a part of the debate which is not the whole story, and I think that might have been, you know, overblown in many respects.

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The part of the debate now is that there are parts of Britain that have been left out of the economic development that is being spared by successive governments domestically, but also by the EU, but that those places will now be competing for development aid because they are relatively poor, and in relationship to London and some of the other big cities.

So, I mean, how do you see that playing out from your own expert perspective.

MR. KHARAS: Well, I think the remittances, the trade, you know, these are all aspects of globalization, and we've come to expect trends in all of these things to continue along trend lines. And when you go back 30, 40 years, you see all these trends lines basically, gradually, and continuously growing. Growing.

And, yes. Every so often there are some pickups as there are in, you know, most economic trends and variables, but there was an unmistakable direction of where this was all headed.

I would imagine that many countries and household will feel shaken about whether or not those trends will actually continue, or whether this represents some kind of a turning point in those trends.

So you know what? I do suspect that there are these much deeper questions around globalization. One of the things I think is interesting though is not to put too much emphasis on just the economics of this, because the real people in some sense when one talks about how globalization has affected wages in advanced countries, et cetera, its mostly how they've affected wages of young people. It's your first job. It's a new entrance into the labor force. All of those people actually voted to remain. They weren't the people who were saying let's leave. It's the people who aren't working, in some sense it's the pensioners, who have very much more heavily for leave or exit.

So that's, perhaps, not necessarily linked to the economics of globalization or the economics of technology change because much of what is called globalization may, actually be simply technology change, but globalization is a convenient sort of scapegoat or catchall for many of these phrases.

So if, and it's still a very big if, but if this presents a rethinking of globalization, that rethinking could be for better or for worse. We could actually end up with a better globalization. It's clear that the globalization we have right now isn't the best that we can imagine.

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So maybe this will be a wake-up call for political leaders across the world to, you know, take some notice of some of these things. And I would say that to some extent they've already started to do that.

And so when you look at developments like the global goals for development that the U.N. passed, 193 countries of the U.N. unanimously agreed to in September of last year, they included many of the things that people are now talking about and writing about. They included issues like inequality. They included issues like jobs. They included jobs of fairness. Many of these things that now people say, well, you know, we've forgotten about these issues.

People were aware of, included them in the plans for the future, but maybe too little too late.

MS. HILL: Well, Aaron, I mean, listening to this, I mean, do all of these issues about inequality, jobs, fairness are very much the stuff of American politics right now.

I want to draw you into a discussion of the political campaign. But certainly someone with your background from the Treasury, you know, thinking about this from both the domestic front and the international front, you must have maybe some feelings of disquiet, as well as, perhaps, some questions about, you know, opportunities here too.

One of the commentaries just recently in the last couple of days has been, you know, the U.S., (inaudible) even a larger economic than it did last week with the U.K. not out of the EU yet, and we have to, you know, (inaudible) that the U.K. is not out of the EU. It's just everyone is talking as if it is, but it's not.

But if it is at the end of this process and the people envisaging, you know, the U.S. (inaudible) of either, you know, the number one global economy, the EU, and it drops down in a kind of an aggregate fashion.

As Homi's been talking about, there's been a run to the dollar as a safe haven. This has all kinds of different questions. I mean, how do see this potentially unfolding, and what are your initial thoughts about it.

MR. KLEIN: Yeah. So a few things. First off, I think the world is poorer as a result of Brexit and the U.K.'s choice. But I think Homi's point that economics only have so much to show and

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teach us about tradeoff because wealth and sovereignty. Right? There is a -- they traded less wealth for more sovereignty. That's not necessarily irrational. If I offered anyone here infinite wealth and zero freedom would you take it? But when Britain made that choice between wealth and sovereignty, that has a series of domino effects. Let me give myself an accent profile for a moment relative to my panelist and focus on the United States because a lot of these trends will have a huge impact in the U.S. even though the U.S. is the most domestic economy of all major economies.

And even though more than 80 percent, I think almost if you did the math better than our official estimate, you'd get closer to 85 percent of our economy's domestic, you know, mortgage interest, you know, people are going to start refinancing their houses because of Brexit because it's flight to dollar denominated safe haven assets have pushed down interest rates. And we all thought a t3 seven-eighths, you'd never get a cheaper mortgage, well, wait.

We're gonna see disinflation. The stronger dollar pushes down prices of commodities which makes inflation look even lower. It's impacted the path of monetary policy. The Federal Reserve had made one interest rate hike and had been talking about gradually increasing rates.

Well, two things have happened, right? Number one, the impact of rate increases now are going to be even larger than before. The stronger dollar acts as kind of megaphone and amplifying impact, particularly because Europe and the rest of the world facing, and the United Kingdom, facing slower growth, facing higher recession probabilities are going to be more likely to try other methods to lower rates and simulate growth through monetary policy which will exacerbate currency placed differentials even further. So there's gonna be large impacts domestically, you know.

The United Kingdom is the fifth largest source of our nation's exports. So, you know, the price of a Ford just went up 10 percent. The flip side is a mini Cooper is \$2,500 cheaper. And, you know, that has impacts not just on us, but has impacts on Japan. You know, the yen has rallied substantially, so it's not just the United States. I was asked earlier today by a reporter, you know, is this local contained or is it global. It's very much global, and will impact Americans in more ways you least expect it.

On the political side, your point about remittances, I think is really important. You know, that was one of the areas where remittances from the United States are more than 10 percent of GDP to four or five countries in this hemisphere. At one point, people were paying more in exchange rate fees

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remittances if you added them up than some of our official development programs from the United States government to major counties. I'm proud to say Dodd-Frank, one of the acts I worked on in Treasury actually created a more transparent market to use these remittances, but you saw remittances draw up in the wake of the financial crisis in the United States. And when you see Donald Trump talk about his plan to pay for the wall, and those were his terms, words, not mine, because it's a nonsensical document that's both dangerous and unworkable. But it involves cracking down on how everybody in this room would use their bank account to wire money overseas in an attempt to force Mexico to, quote/unquote, pay for the wall. But my point on that is, you know, the topics of migration, immigration, and globalizations and markets are getting amalgamated into this one binary choice of stay or leave.

And those different effects, as you kind of unfurl the ball of yarn, and you pull on the strings, have very different impacts for different folks, and could portend to be extremely disruptive to the United States economy.

So, you know, my message is just because it looks like the market has kind of snapped back, and the Dow seems kind of closer to where it was before, don't think that Brexit has kind of washed past our shores. The effects are going to be here to stay for quite a while.

MS. HILL: Do you have any thoughts on the political effects of this. And I'm going to bring Tom in on this as well, because Tom has been actually writing quite a bit about U.S. domestic and foreign policy as well.

But we famously had Donald Trump on a golf course in Scotland, Scotland which had just actually voted to remain in the U.S., complimenting Britain on, you know, getting it's country back saying, you know, the U.S. is next. Well, what was the U.S. leaving? You know, so --

MR. WRIGHT: May I? May I say it?

MS. HILL: And that's what I wanted to ask you about, how do you see this playing out?

MR. KLEIN: Globalization. So a couple of things. One is, it's very important for people in this room to appreciate how much of a bubble we're in in this room.

So there was a poll on Wednesday, the day before the vote. 75 percent of Americans had never heard of Brexit.

MS. HILL: Seventy-five percent?

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MR. KLEIN: Three out of four. Right? I'm not gonna poll who at the game-winning three pointer in Cleveland-Golden State. I expect you -- so 75 percent of Americans never even heard of it. So don't overestimate American's attention span and interest in these things, and especially when the market falls 1,000 points in a day, that starts to resonate.

The core forces at play are very much the same. I think both Tom and Homi have talked about the youth vote.

So I went back and ran the numbers, and if youth under the age 30 voted at the same rate as people 35 to 45, just participation rate, I'm going to hold their choices the same, we wouldn't be here today. Britain would still be in.

Youth voter turnout made the entire difference. One could look at this lens here. You agree or disagree with that. And youth turn out is very marginal in the American experience. There is a huge gap between Bernie Sanders and Hillary Clinton. And so, you know, people are looking at polls and saying, oh, you know, the Bernie (inaudible) aren't going to Trump, so Hillary is, there are multiple options in voting, one of which is don't. And that's a big impact here, right?

Number two is, you know, the impact, I would say one reason though I'm less, think that this is less overblown here, is I was kind of blown away by this, and maybe you guys as Greater Britain United Kingdom metrics, United Kingdom is 85 percent white, and the United States is 61 percent white, not Hispanic. And again, I don't pretend to fully understand the different ethnics, but I think there are greater racial and ethnic divides in play in the U.S. election that are pushing against, perhaps, some of the forces you saw in the United Kingdom where, you know, both Conservative and Liberal Parties kind of found this joining, and I think that's in play here not because of the substance of the issues about trading globalization, but because of the racism and attitudes of the candidate most affiliated with kind of American leave.

MS. HILL: Well, where Britain looks most like the United States is actually in London where, you know, you have a very different outcome -- from the rest of the country. That's the most diverse part of the United Kingdom, and Tom and Homi can talk about this.

The places that voted to leave were predominantly the least diverse parts of the county. My hometown, for example, only has 8 percent of the population from somewhere else. That somewhere

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else can also defined in many different ways. But these are places that very much also fit some of the demographics that you're talking, about the base of support for Trump, and, you know, some other candidates in the presidential election campaign, who felt that everything has passed them by.

And if you go to the BBC website where they've done a lot of very interviews with voters, you know, around election of other people from the northeast of England said, we've been forgotten up here. You know, they've forgotten us. Nobody knows we're here. So there was kind of a shout about, hey, we're still here. We've been passed by. This goes to some of the things that we've already talked about, and we're gonna, you know, shout and make our voices heard. They probably didn't anticipate that their voice would be heard in the same way, and that is obviously playing in to the U.S. political campaign, and that's some of the research that some of our colleagues here have done like Gary Burtless, you know, of Brookings, who's done some really great work on the white America, the permanent underclass that has developed with, say, poor health outcomes, critical rates of unemployment and under employment.

The U.K. government actually keep an index of deprivation in the United Kingdom. A series of databases were kept since 1984, so actually not that long, really. But if you actual hold up the indices of deprivation from the United Kingdom in voting (inaudible) you can see a very strong correlation. And deprivation is access to education, access to healthcare, another factor that plays very strongly in the Unites States, as well as people's perceptions about opportunity which I think that's what you were talking about, Homi, is opportunity not just economic living standards or anything, and also housing ownership. I mean, all of these issues that play into American politics. Also, I think there are some structural (inaudible), but, obviously the United States is a much more diverse place.

I mean, Tom, you've been writing quite a bit about this. Also about the U.S. political situation. What lessons can we take away, being reasonable about this, for the U.S. presidential campaign?

MR. WRIGHT: Yeah. I think to me it comes down to the aftermath of the financial crisis of '08 - '09. I mean, the slow rate of recovery, the lack of global growth, the lack of national growth, and the sense that one's domestic situation is precarious partly because of these mysterious global, you know, forces I think has in a (inaudible) delayed way resulted in a, you know, in a populist, you know,

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rebellion that says, you know, we need to find national solutions to these international problems, and part of that is to insulate yourself to some extent, or to do things, you know, domestically that wall yourself off from some of this international volatility.

And if you think about Trump's method, I mean, his message is, essentially, you know, you're getting screwed here at home because foreign nations are exploiting you or taking advantage of you in the (inaudible) position, and its sort of emphasis on sovereignty was something, you know, similar.

Now, the official leave campaign's position wasn't quite, you know, that crude, but it did have the common element of sort of blaming the international for the domestic and saying that there were simple solutions.

And the thing is that part of that, you know, reflects real anxiety. Now, you can say that, you know, given that the financial crisis was, you know, the most severe shock to the world economy since the 1930s, but, actually, it's not so bad. But that's not a message that sells politically. You can't win an election by saying it's not as bad as the 1930s.

And so people want a different, you know, standard, and they are entitled to that, but the message that populism had doesn't have an agenda for global growth. It doesn't have sort of a positive sum, you know, agenda about how this works for everyone. It tends to be more zero sum. It's all about winning, beating another country, beating another country in negotiation, and getting more than you would have otherwise have gotten. I think that's sort of the common thread between them.

I would make just one other point, which is I think it's important, which is that the, you know, the Brexit crisis is a symptom of the broader European crisis, and not a cause of it. Right? I mean, the reason why this happened is largely because of the Euro Zone crisis in the sense that the EU isn't working. This was unthinkable prior to '08 - '09. I mean, literally unthinkable. There was a big argument in the Tory Party about not integrating more into Europe, about not joining the Euro, all of that, but it wasn't about leaving the EU. That was very much a fringe idea.

And the political contagion risk is real, but it stems from this perception, and maybe the reality, that the EU has serious problems and is not working effectively. It's not actually because of the Brexit vote. I mean, there are very few, if any, countries that are going to follow the U.K. and follow its example simply because the British people voted to leave Europe, you know, last week.

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But there are people who will resist needed steps on immigration, or throw out governments that are seen to be pro-European because they're very frustrated with the EU, and I think that's the challenge, really, that European governments have to deal with which is how to restore growth in the eurozone and more broadly in Europe.

And if you get high levels of growth, then I think not all of these problems go away, but quite a lot of them are significantly eased.

And with that I'll wait for my two economist colleagues to completely dismantle what I just said.

MS. HILL: Yeah, I was going to say how likely is that? Yeah, how would you react to that in terms of the prospects for stimulating growth under the political crisis that we find ourselves in?

MR. KHARAS: I think even before all of this there was a great deal of nervousness that we are in a period of, a long-term period of much slower growth, and, you know, Larry Summers has talked about secular stagnation, and whether it's stagnation or low growth, but regardless there does seem to be substantially lower growth everywhere.

But I did want to comment, actually, on your point about the difference by place. We talk a lot about countries, and we still think about, you know, what's happening to this country, or that country.

And, actually, I think that what we're seeing is the real economic impact of globalization is very, very different in different places and regions within countries. And this is, a lot of this is about those kinds of regional imbalances, and it's much harder today to, actually, adjust to that.

So, obviously, London has benefitted, you know, tremendously, as has in this country the northeast corridor. Washington is booming. New York is booming. But secondary cities are offering, actually, doing quite poorly, and when there are secondary cities which have a concentration with one particular industry which might have just left, it's very hard to then recover and to generate a new local growth model.

And so I think that we've really underestimated some of the cost of adjustment when they are so spatially different. And, actually, this is, thankfully, not a problem that many developing countries have because they don't have the big secondary cities that are then going into decline. Many of them are still in the process of forming cities.

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MS. HILL: And Nigeria is a great example of --

MR. KHARAS: Yes. It's just a matter of where do I go? Do I go here, or do I go there? It's not, you know, I was in the city here, and now it's no longer as productive economically.

So this idea of losses, and how one deals with those kinds of losses, and that when losses are heavily concentrated and reach a critical size, then adjustment becomes even more costly I think is something that we really haven't factored in in a real way to many of the adjustment programs.

So it doesn't become any longer just a matter of a job retraining program or something like that. It's that there are no jobs in that particular area and locality, and how far that spreads is, you know, still a matter of considerable debate. So --

MS. HILL: Okay, this raises a number of questions, you know, for the U.S. as well about mobility. We've had a lot of studies recently showing that mobility is actually at its lowest right now in the United States. And we were obsessed about migration and immigration of people coming into the country, that people within the country finding it harder to leave, and that's exactly what had happened in the United Kingdom. People in these secondary cities couldn't really move to London because the barriers to entry are too high because of house prices. You cannot sell, you know, in Cindeland (phonetic), you know, expect to buy anything more than a shed, or perhaps a parking space in London, if you're lucky, and, no, I'm not joking about that. You can do some, you know, googling online and find that, in fact, that would be probably what you could hope for.

And with the even lower down to the small towns, even moving to a larger city becomes problematic, and I think we've seen the same thing in the United States where it's perceived that immigrants (inaudible) because they're prepared to, actually, suffer a great deal of hardship, and make all kinds of accommodations because they're already improving their lives by moving out of wherever it is that they've moved.

So in the United States, I mean, how are seeing that playing out as well?

MR. KLEIN: So, I think a couple things. One is I'm a little less sanguine than Thomas on the ramifications on this. I am more concerned about the possibility of disintegration with the United Kingdom. So kind of an internal integration because you could ask yourself, you know, if the United Kingdom has chosen sovereignty over wealth as it could in the situation that Great Britain has, can

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Scotland improve wealth and sovereignty?

MS. HILL: Right.

MR. KLEIN: Right? And then the second this is you look, and Pew just came out with a study in France that showed France is pretty high, I think second behind Greece, and was a little higher than the United Kingdom on being upset with the European Union.

You point out Le Pen, who seems all but certain to get into the runoff in their next election, and you kind of ask, you know, the similarities with Trump, over here we're kind of very focused on Trump, but there are plenty of similarities with the Le Pen movement, and you ask yourself kind of where is this coming from.

The last point I point is there's been a loss of confidence here, I agree with Thomas, in institutions, a loss of confidence in forms of government. And I think, I look back on my time in the United States, and my time at Treasury, and, you know, there is law or requirement that was just recently revised, but for years and years Treasury is required to issue a report to the American public about what nations were manipulating the currency.

And under the first Bush administration, the Treasury the-Secretary Brady used it, you know, effectively in my opinion to point out certain Asian countries, predominantly Asian countries, but there were some others, that were manipulation their currency for unfair competitive trade advantage, and there was negotiations and dialogs in late eighties, early nineties.

And then there was a long period where no country was ever designated, including China than the period where I think, you know, serious people would have to acknowledge that that was part of China's explicit strategy of currency manipulation.

And government used all sorts of creative words that were synonyms for manipulation but never used it even though it didn't really trigger anything that much more than additional dialogues which were already taking place, but there was in Congress at certain points, and the Senate voted, Schumer had a bill. There were certain votes by Congress registering their disapproval of this, but for geopolitical purposes, China was never designated manipulation.

In the long run, I wonder how much does that feed into the lack of credibility of institutions, and governments, and experts that was driving, I think, part of the view in Brexit, but also

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driving part of the view in the Trump campaign?

MS. HILL: Well, that's another point, and as we all sit here as experts on this panel, we certainly should feel very concerned about that.

I mean, one of the big points as you rightly underscore in the Brexit campaign is that people didn't believe of the facts that they were presented with. We actually had an event on May 6th, some of you I know from looking around the audience were actually here, where we had brought over a group of colleagues from the United Kingdom from universities, who had received a big grant from the National Research Council in the U.K. to, actually, tried to lay out the facts on both sides of the campaign of leave and remain.

And, frankly, even as, you know, someone with quite a lot background on this and reading. It was very hard to weigh this up. It was very hard to, you know, where this all came down, and it was very difficult for anybody who was in the campaign to be able to refute all kinds of spurious claims that we've now seen, you know, various people backtracking from. So I think we're overseeing that same space here where, as you point out, 75 percent of the U.S. population hadn't heard anything about Brexit beforehand, and are very unlikely to be reading into the nitty gritty of the facts that are being thrown out in their own presidential campaign.

I think I'll use that as segue into our very well educated, and, in fact cases here, representative audience of some of the interested players in this. I can see actually here many people who I know have a perspective on this point. I've got some colleagues here who are representatives of the European Union, from the British Embassy, a colleague who is sitting here in the front row, originally from the U.K., Jeffrey Harris, who's the outgoing Deputy Representative of the European parliament (inaudible) with U.S. Congress.

Jeffrey actually started his career with a British referendum for going into the EU in 1975.

(Laughter)

MS. HILL: And he retired a week ago just before the Brexit referendum. Jeffrey and I talking about his memoir which we're sure will be coming out soon about a British civil service and representative in the EU. I know he'll have something to say.

I mentioned before Tom Arnold, who might have actually gone from the Institute of

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International and European Affairs in Dublin, and many other people here who I know may have something to say. And as I said, we'd like to have this as a conversation.

And I'm going to ask Jeffrey to make a couple of remarks. This is Jeffrey's last day here in the United States. He's going back to Brussels to live. Good luck to him.

MR. HARRIS: Thank you, Fiona.

MS. HILL: (Indiscernible 14:55:42.) maybe needs more than a glass of wine, but, Jeffrey, a few perspectives.

MR. HARRIS: I won't lay down the law or anything about what has happened in my country up until today. I think what Thomas said about this being a sort of not just Brexit. It's an overall crisis of the European Union which has clearly been building up for a number of years. The president of the United States made some points yesterday. Whether they were exactly correct I don't know, but he was more or less on the same track.

But, basically, the question is how to go forward. And it's not a question of being pessimistic, optimistic, or making any kind of predication, I would just point out to you that Britain remains a parliamentary democracy. And the issue, as you mentioned, the whole proper functioning of the institutions.

This really does go back to the 1970s because probably the only British politician who made his whole career around the European idea was a chap called Roy Jenkins. He was the deputy leader of the Labor Party in one of these early power struggles within what was then a relatively strong Labor Party.

He gave up his position as deputy leader because the party decided to have a referendum, and he didn't like it. So that's a matter of principle, I'm not going to say.

He had led the group of rebels, who had provided the government with a majority to get in in the first place. He was used to being in the trenches. He then led the victorious campaign in the referendum, and went on the President's Commission, and then Labor Party fell apart for a whole lot of reasons.

So the idea of referenda to solve this issue wasn't new, and maybe Mr. Cameron thought because it was so obvious that the British people would vote to stay in.

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The other thing with the question of Scotland has been building up also for 40 or 50 years when the SMP had one or two members and sensational violations have gone to a situation where today the first bench of Scotland has flown into Brussels with a unanimous, almost unanimous mandate.

My question, just one specific point, since we are at Brookings, you're gonna talk about globalization. But let's not exaggerate this element. Boris Johnson and Michael Gove don't really that much globalization, but they do no doubt sincerely care about the constitutional issues. And plus the losers of globalization if you want to define the people of Cinderland, or whatever, that influenced the result, and maybe a slightly more enthusiastic Labor Party leader could have just tipped the balance, and it would have been okay. But it wasn't really about globalization. It was about Brussels' bureaucracy, sovereignty, and so that's the issue which now has to be resolved.

The thing that has struck me, and you mentioned Mr. Trump. I wouldn't, it's not up to me to dish out any praises, but he did appear to me up until Thursday, you mentioned the overwhelming ignorance of Brexit as an issue, to be the only politician, apart from the president to had come into come in to help his friend, Mr. Cameron earlier on, he was the only politician who identifies this as an extremely important event, and I'm prepared to be corrected. I do not believe for one millisecond that he flew into that golf course at Scotland by pure chance on the morning of what turned out to be one of the most important events in western history whatever happened.

So we're still a parliamentary democracy. We might have another referendum. I doubt it, but you still have to get a majority in parliament to start the Article 50 procedure for them to finish it, and there's a very, very long way to go until we get to that stage.

MS. HILL: Thank you, Jeff. Very important points. I don't know if any of my other colleagues, perhaps, you can sit and think about this.

I also have a colleague here from the EU. The gentleman down here at the front. Could we have the microphone, and please identify yourself as well?

SPEAKER: Thank you. Do I stand or stay seated or -

MS. HILL: Yes. Whatever.

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MR. SILVER: I just want to ask more a -- first of all, my name is Matthew Silver, but to ask a theoretical question which was touched on just here, there is, actually, still a legal issue at play, and that's the fact that the EU Referendum Act of last year, didn't mandate what happens regardless of how the vote takes place. So parliament could decide that they're not going to act on this issue. Even though the world markets have already acted, the FTSE has gone crazy, the pound just gone crazy. So what now?

I mean, we have a legal issue. We have a political issue, but potentially parliament doesn't have to act at this point in time? And what would happen?

MS. HILL: Well, I think, let's address some of this. I mean, Tom, this has been an issue that we've all been talking around the water cooler about as well because this is exactly, it's on everyone's minds in London in the politics as well as in Brussels.

MR. ARNOLD: Yeah, So, I mean, personally on this Article 50 process which has to be sort of officially triggered, and then there's no automatic exit after two years. Cannot be suspended unless all the member states agree. And the U.K does not want to trigger that, and in the immediate future.

Cameron, I think, did something really smart when he said he'd leave it to his successor. That was partly on principal, but I think also to buy time because once you get into that process, the rest of the EU has all the leverage. Right? And so the U.K. has very little leverage, and is sort of captive to the demands of other countries which have started to (inaudible).

So within 24 hours, Spain said it would require joint sovereignty over Gibraltar as a condition of any future relations deal, and there are other sort of redlines, you know, as well.

So the U.K. wants to buy time, and it definitely won't happen until there's a new prime minister. When the new prime minister takes office whether it's Theresa May, or probably will be her, but, or if's Boris Johnson or even someone else, you know, you could easily say that they want some time to get established before actually triggering Article 50, and they may set the point as being after the French election, and because it would be hard to get anything done before, so we're really talking potentially in a year's time. Right? I mean, that could buy up to a year.

Now, the rest of Europe has sort of been quite adamant that that is too long. And Merkel,

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like she said that there should be some time that said, they've been indicating it's around three months that they have in mind, not a year. Others have said immediately, but there's no way of forcing it. There is no way of forcing it. And so Britain can hold out on this for as long as it wants. And domestically, it may be difficult to do it indefinitely. It's probably impossible. But certainly, they can buy some time, slow things down and try to figure out sort of where things are.

On the second referendum I would just add. I do think this is a possibility, but it would require a lot of things to happen. It would require everyone wanting to reverse it, which is not obvious that that would happen. You know, you are expecting people to be reasonable, but there may be unreasonable people, and developments that just mitigate against a reasonable negotiation, and you would probably need a general election, and you need a coherent Labor Party that would actually make second referendum part of its platform.

And then you couldn't just have a second referendum to reverse the vote. I think you would need to have it on something else. So it would, perhaps, have to be on the terms of the negotiation that the U.K. government got to leave. And then you would say, well, in 2016, you gave the British government a mandate to negotiate an exit. Now they've negotiated an exit. Now you decided is what they promised initially, or does it fall short. And so you give them that option. And I think that's quite democratic. You know, it's not very British for the reasons you said because referendums aren't very British. And I agree with Lord Jenkins. I think you can certainly a pensable case against it, but, you know, the genie being out of the bottle, you could make a case, but that would be more 2019-ish, rather than in the next 12 months.

MR. KLEIN: So the only point I would add is that delay she cost.

MS. HILL: Right, yeah.

MR. KLEIN: Right? There's an economic uncertainty. I do a lot of work in financial technology, and up until last week, London was well positioned to be the global leader in Syntech. They have a great regulatory regime. The U.S. was trying to catch up. The White House (inaudible) et cetera.

Well, if you were starting a Syntech firm right now, would you want to start it in London?

MS. HILL: Aspect of this that Jeffrey touched on that you actually raised as well about the future of the U.K. plays somewhat into this response that you had, Tom.

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As Jeffrey mentioned, Nicola Sturgeon, the First Minister of Scotland also flew to Brussels. Not everybody met with her, but she was clearly making a pitch for the consideration of Scotland and its decision, at least the voters decision on the referendum to remain, and also because the Scotland's status within the United Kingdom at the referendum on independence, another referendum, back in September 2014 seems to be to a large part determined by the fears of Scottish voters about the likelihood of being outside of the European Union if they voted to leave the United Kingdom.

So we've kind of gone full circle again back to some of the issues that were raised in that referendum.

There's been some circulation in the press that, perhaps, Nicola Sturgeon could use the very large number of S&P members of parliament in the U.K. parliament, in Westminster, not just another in the Scottish parliament, to try to block in some this movement towards the triggering of Article 50, or, perhaps, carve some new referendum. I mean, how likely is that to play out?

And then, of course, there's the Northern Ireland aspect to this too.

Yes, this is to you. I mean, I'm sorry. Homi was looking at me kind of why are you asking me this. But I'm asking you this, Tom, but you can also have (inaudible).

MR. KHARAS: I have no comment, please.

MR. WRIGHT: I mean, clearly, there are big implications for Scotland. I don't disagree with anything you said, but I think we need to be a little cautious before saying that Scotland is about to leave the U.K. because there are several barriers, and for one, they need a second referendum on independence, and it's by no means certain that a conservative government will grant them that, certainly, in the near term, and they could say, they could put off to the next parliament, they could deny it overall. And Scotland can't have it unilaterally. If they have it unilaterally, it's illegitimate. It has no legal standing.

So, you know, when you put that to Scottish independence supporters, they say, yes, but that will cause a constitutional crisis and a standoff. Yes, well, maybe that very well be true, but it does sort of, still it's a fact that it's not an automatic procedure.

The second thing is that -- but I think you're right that being outside the EU was a factor in using the independence referendum. The larger factor was the currency question --

MS. HILL: The sterling, yes.

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MR. WRIGHT: -- and other issues which remain unresolved, and in many ways are exacerbated by a weak England. And so if you have a weak English economy and a weak overall economy, and to actually have Scottish independence in that circumstance, you know, is not great, and in the international context where the price of oil has plummeted --

MS. HILL: Right.

MR. WRIGHT: -- from what it was. And so the oil can for revenue doesn't hold up either. None of that is to say that Scotland won't become independent, but I think that they have a number of obstacles to overcome, and then they also have the problem within the EU where Spain and others don't want the precedent to be set for Catalonia and other secessionist movements.

So I think that the Scotland thing is very real, but we're looking more to a five-year timetable rather than something that's going to happen at great speed.

MS. HILL: But if Scotland and Northern Ireland both make a pitch now in some form it just makes it quite complicated having this to slow this down, and be able to maybe also put a break on some of the demands from the EU to move more quickly.

And, also, what's your thoughts on that?

MR. WRIGHT: No. No, I think they will, and I think the Irish government will, you know, and is already sort of arguing to slow it down, and will sort of use the peace process that Northern Ireland were using. I think many European leaders will find it difficult to resist that logic, because that is something that Europe has a role in. You know, that is one of the great achievements of the last sort of 20 years in Europe, and there will be a lot of sensitivity to that.

MS. HILL: Aaron's point about the youth vote is also very interesting, because we've seen protests by students who didn't vote for a variety of reasons, and some, you know, because they didn't see the importance of it. That is because it was actually difficult to vote, and now and I'm going to protest, and the number of EU parliamentary officials are saying, you know, students of Britain, we remain with you.

I mean, this is kind of an interesting development here, but I mean, I don't whether, Homi or Aaron, you might have some thoughts about the student movements and, you know, how likely that might be to change things, because you, you know, talked about the economics of this.

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On the youth side, it's about opportunity. (inaudible) was a very high opportunity cost now for students within the U.K., as well as EU students who like to study in the U.K., and the impact that this could have on the British education system.

MR. KHARAK: The old tradeoff, you know, should I have a beer, or should I go vote, and typically the beer won.

MS. HILL: That's an expensive beer, yeah.

MR. KHARAK: Right. So there's a fair amount of regrets flowing around social media amongst young people.

MS. HILL: Do you think it's enough to have an impact on the ranking of British universities globally, some of the decisions that people might make about, you know, research and development, science (inaudible), or is this just too early to be able to have a conclusion that --

MR. KHARAK: And I can't imagine that that will be the immediate or, really, a significant part of the impact.

MS. HILL: (inaudible) colleagues at sites across the world to kind of think about doing similar (inaudible) at LSC, or something, you don't see any downsides (inaudible) because this is, of course, a big part of the British economy as well as the educational sector.

MR. KHARAK: I think everywhere there is an issues, and we've had this at Brookings of the difficulty sometimes of people with whom we would like to talk getting visas to be able to come and participate in a range of discussions. And the more you're isolated and have separate processes, et cetera, the harder that process of academic freedom and discussion becomes.

MS. HILL: Lots of moving parts. Yes, there are a number of questions. I'll take this gentleman over here, and I'll try to get to everyone. We've still got quite a bit of time. Thank you.

SPEAKER: Yes, thank you for your panel. What would you tell people who are celebrating this as the kickstart of the breakup of the monstrosity that has become the European Union, and that you're gonna see break apart in the next few years?

MS. HILL: (inaudible), by the way. The gentleman behind you. Yes. Steve, yeah.

SPEAKER: Basically, two questions. One is what are the implications of this vote for the prospects of the TTIP agreement? Does this basically mean we're not going to see it happen until at

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least 2018, if then?

And secondly --

MR. KHARAK: Yes.

MS. HILL: What is that a yes to?

MR. KHARAK: On this question of if you go back, you do a do over, or just refuse to pass the, you know, 150, Article 50 thing --

MS. HILL: Article 50.

SPEAKER: What would that do to the U.K. in the next election if that happens?

MS. HILL: Good question. And then this gentleman here, and then I'll go to the other side in a moment. Yes, sir.

SPEAKER: Yes, Tom Orson. Just following on some of the earlier discussion, so they, the Article 50 gets designated, and we have two years to come to an agreement, and they don't come to an agreement, and they never can come to an agreement, or the agreement they come to doesn't pass the British parliament, or doesn't pass the European parliament, I mean, is there a way that this might just end up being in a sort of endless loop?

MS. HILL: Well, there is supposedly some procedures in place to stop this endlessly. But let's go back. I think, unfortunately none of these questions are going to Tom here. And the first question about the breakup of the EU also ties into an awful lot of questions that people have been asking about, whether the EU was reformable at this moment. I mean, Jeffrey had touched on constitutional issues. There's a lot of questions about whether you could a new EU treaty out of this, a new EU constitution, or, you know, is a break up now inevitable.

Aaron, I think you can probably, and Homi, as well, weigh in on TTIP and (inaudible). And then this issue of do over, and Article 50, and the future of UKIP is also, you know, perhaps, related to that first question as well.

So, Tom, sorry you're kind of in the hot seat here, but that's what you're here for.

MR. WRIGHT: I have (inaudible), but I'll leave that, I think, for Aaron and Homie.

On the monstrosity that is the EU. Well, I think if you think it's a monstrosity, you're very happy, right? I mean, it's got to be good news that you've got Brussels, and the elites get a bloody nose

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over this.

And I think there will be a lot of people who, you know, in different countries who do feel empowered by this. But I just question, really, whether there is ultimately, you know, a coherent sort of alternative vision that's going to deliver for those who are, you know, those who are anti Europe or anti globalization here in the context of Trump or others.

I mean, we have yet to see sort of an agenda for the global economy, or even for national economies that will replace the would that would be lost by pulling out of a lot of, you know, a lot of this, these international commitments, and until that happens I think it will be a very heavy lift over the long, over the over the long term for the more nationalist view.

But that brings me to the, sort of the question on can you have an indefinite postponement. I don't think you can have an indefinite postponement of, on Article 50, if only because, because of the point that you made, but, also, because, you know, when you think about who's in government is the Conservative Party, and what way the conservative activists vote, I mean, they voted to leave. Right? I mean, they voted in an overwhelming majority of Conservative Party members voted to leave, and they are choosing the next prime minister in few weeks, in a couple of months. And they are going to demand an answer about when this will be triggered, or what the agenda will be.

I mean the leave campaign may have been at sixes and sevens in the last few days, but they won't be able to avoid this question. So by the time the activists vote on the next leader, there will be a couple of choices out there. Most of them will probably involve trying to keep faith at least theoretically with the vote. And Theresa May may have a slightly different approach than Johnson, but I think we will see some activity.

And then finally, just on the (inaudible) point, you know, there were two elements to the negotiation as I understand it. There was the exit from Article 50, and then there's a future relations part, and the questions had to have those in parallel. I think Britain very much wanted them in parallel, and other countries in Europe would like, some of them would like to see them parallel, some of them don't mind so much (inaudible) as possible, but that's where I think you would see an effort to delay, and to try to use the leverage from that delay to get some idea about what a trading agreement may look like, or some clarity.

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It can, my understanding is it is fairly automatic once it's triggered unless it's extended by unanimity, and so there is a end point at two years that can't be gotten around unless everybody agrees to extend it, and that I think is why London is rightly nervous about invoking it.

(inaudible). This is not a, you know, there's no precedent for this. It's not a developed procedure. It's not sort of clear that it was particularly thought through when it was written in the first place about how it may work in practice.

And I think that you will see the leaders, particularly Merkel, you know, I mean, because she's the one major European leader, who is almost certainly going to be around for the next few years. I mean, she's highly likely now to stand and win, you know, next year.

So she is the key player both in Berlin, and, I think, in Europe. And she doesn't have infinite power, but she certainly will be the key player, I think.

MS. HILL: I mean, the fact that you've just said here that there's no precedent is a very important here. We're all in uncharted territory, and, you know, as we keep emphasizing, but they're still part of the EU at this moment, and has to work out a future relationship, and this is where the U.S. actually does come in quite strongly here.

TTIP, you know, is obviously being called into question, and we just had the question about it, but there has been that debate and there was running up prior to the Brexit about how will the U.S. handle this? How would the U.S. handle its negotiations on TTIP (inaudible) EU, and how then will it handle the trade relationship with the United Kingdom, which as you said yourself is extremely important? And this, actually, might give us some sense of how the future relationship even between the U.K. and the EU might play out.

So I do think here, (inaudible) have a very crucial role. So what are your thoughts on --

MR. WRIGHT: So it raises a lot of questions. The first thing with respect to TTIP is you have to know who you're negotiating with. If you're negotiating with the European Union with or without the United Kingdom. So I don't see any path on that.

Two, you know, to the extent that popular voices are now more anti trade, and not just trade with developing countries, which is, you know, the U.S. and China, which is a much bigger issue in our domestic political, but this referendum is between developed countries within the United, within the

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European Union.

Two, financial services plays an outside role in the answer to this question because one of the key sticking points in TTIP with a provision of financial services, and this was being driven by the United Kingdom primarily within the European Union, which pre Brexit was the banking center of the European Union.

Post Brexit there are going to be two distinct questions. One is going to be how in this Article 50 negotiation are banks and financial services giving treatment in the European Common Market, also known as "passporting" will be a word you'll hear used frequently in this question. But it will also be a question between the United States and the United Kingdom.

And by the way, a different piece of news that came out in the financial regulatory space touches on this today, General Electric, GE, one of the iconic American companies, who had been, was the only non insurance company designated as a Systemically Important Financial Institute, or SIFI, was to go designated. It was a historic move. The first time any company has ever been de-designated.

In doing so, a large part of that was because they sold a lot of their financial operations out of GE Capital to the United Kingdom. So in the Treasury Department's official statement as to who they talk to, they said we're de-designating it. As part of this, we've talked to the Prudential regulators of GE, the Federal Reserve, the FDIC, and the United Kingdom's PRA.

It was a Prudential regulatory authority, and the United Kingdom was one of the three regulators that the U.S. Treasury spoke to in debating this situation. The relationship is special.

I'll close with one point. It's very interesting to me that Paul Ryan came out, the Speaker of the House, and said we should have a free trade agreement with the United Kingdom. We should strengthen the special relationship. And this kind of gets to the point, I think, Tom and Fiona, you were making and alluding to about the historical role of conservative governments and the Conservative Party in promoting free trade.

MS. HILL: Uh-huh.

MR. KLEIN: So I think Paul Ryan is kind of playing the expected role of the leading elected Republican in America. Embrace the United Kingdom in free trade and move forward. Hold aside what that means for bank regulation which has historically not been part of trade agreements, but the

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United Kingdom may feel differently about that.

Donald Trump hasn't said anything on that. Would Donald Trump support a free trade agreement with the United Kingdom? I don't know. The politics of trade do not neatly fit into the American two party system and it's continually to get scrambled. And so how that U.S.-EU relationship will work going forward, I think we need to see that further unscrambling. I think the role of financial services and bank regulation will play an outsized role in that conversation. And then in the, you know, I think it's very important not to leave behind the European Union.

A reason the United Kingdom is bad for the European Union in my position, in my perspective, it will move them away from some of the market based reforms and other common economic structures that the U.S.-U.K. will make that bilateral relationship stronger, but the remaining people in the European Union may see things extremely differently.

Questions about deposit insurance, banking, too big to fail, are very different in the United States than in the continent.

MS. HILL: Homi, I was just thinking, speaking here, Nigel Farage, the head of UKIP, at Brussels yesterday, had, you know, quite a speech from the fall of the European parliament. One of the last things that he said before he stepped down was, you know, that the EU should, you know, essentially wish the U.K well as it pursued its global aspirations.

Now, one of those global aspiration (inaudible) Nigel Farage (inaudible) talked about was the part about trade with China, with India, the old British Commonwealth.

I mean, what's the viewpoint likely to be from the, you know, those persons that you know fairly well about trade with the U.K. under these circumstances?

MR. KHARAK: So I think in a global economy where formal trade barriers especially on goods and, certainly in services, are already today very low.

The real name of the game is about what happens to regulations. And, obviously, places like the EU being accused of regulatory excess, and all kinds of undue regulatory burdens, but what's actually being negotiated in many of these trade deals, whether it's TTIP or TPP, or anything else is what are the global regulatory standards going to look like?

And in a global economy, you will have global regulatory standards. Small countries, the

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small place, will have almost no voice in that. So what those standards will be? These will be standards on data privacy, for example. There will certainly be standards, obviously, on financial regulatory issues, but going beyond, and that's why in some sense these new agreements were actually so important, because there were efforts to start to define what global regulatory standards might look like, and then you sort of set a bar, and, hopefully, expand that bar across the way.

So the issue here is not between regulation or no regulation. And, you know, all of those who hoped that this will result in less regulation are, you know, perhaps, likely to be disappointed because, you know, you will replace EU regulation with sovereign regulation. Okay, that's a good thing in terms of this, you know, tradeoff of regaining your sovereignty, but increasingly in a global economy the space for sovereign regulation is diminished. You cannot have complete freedom over sovereign regulation and at the same time have the benefits of a global economy and the global free movement of goods and services.

So that, to some extent, in my view is going to be the heart of this battle, and, you know, for many developing countries they will be looking to see exactly how will these regulations evolve over time, and will these regulations reflect their concerns and considerations, or will they reflect the concerns and considerations of much more advanced economies.

MS. HILL: Okay. So the (inaudible) is not going to be in the driving seat for a new regulatory framework from this perspective?

MR. KHARAK: They can be, but every time they accept that they want to have national regulations that differ from global regulations, they will also withdraw a little bit from the global economy, and it's that same, that same tradeoff played again, and again, and again in, you know, each of these agreements about whether you want to play by the, what will be at some point in time the global rules of the game, and what's now, essentially, evolving in all of these regional trade agreements.

MS. HILL: And none of these dilemmas resolve (inaudible). There were some questions over here that I'd like to bring in. Bring the mic from down here. Yeah. Just here.

SPEAKER: Yes. Peter Zwack NDU. I wanted to talk about just the continent and the stability of the continent. The question -- and it seems that the Russian Federation has been uncharacteristically measured in its public statements in regard to the Brexit.

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And my question is, as best you can from an economic and political perspective, what do you think is in the Kremlin's calculus in regard to Brexit and long-term stability of the EU?

MS. HILL: Thanks, Peter. I'd like to bring in David Reilly from the British Embassy (inaudible), as well.

MR. REILLY: Thank you. David Reilly from the British Embassy. Thank you, Fiona. And thank you for this event. I think it's an important discussion and debate to be had.

I actually have four points I wanted to make, so I'll be happy to make them now, then I will.

MS. HILL: Yes, please. Please do.

MR. REILLY: First, I think is I want people to remember the, the scale of this exercise. This was one of the greatest democratic exercises we've had in the U.K. in recent years. 33 million people voted. We had a turnout around about 70 percent, and, ultimately, 1.2 million people decided more than the others that they wanted to leave the EU.

And I think this gets to the point this gentleman here was talking about.

(inaudible) this was a once in a generation question. There was no second attempt. And if some of the questions we're hearing today are about does the next prime minister have to obtain democratic legitimacy for the outcome, or how does he or she obtain that, that is a question for the prime minister.

I would say this. While the legislation is not binding on the government, nor does legislation say that the parliament has a role in the invoking Article 50, so it is for the PM to decide, I think, when to invoke Article 50 and the extent to which he or she wishes to involve parliament.

That's actually my first and second points together. My third point is on Scotland. Firstly, we had a referendum two years ago. The outcome was clear, and all major parties undertook to respect that outcome. But in addition to that, the prime minister was clear on Friday, and has been clear again since that he sees it as his job, and the job of his successor, to protect the interests of all parts of the United Kingdom.

And, you know, this government will do that, and we will involve the (inaudible) administrations, Northern Ireland, Scotland, and Wales in those consultations as we move forward to

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insure their interests are taken into account.

The fourth point is just to reinforce a point that you made early on, Fiona, that nothing has changed for the U.K. at the moment. We remain a full member of the European Union with all of the rights and obligations that come with that.

And I wanted to make one other point which has been, I think, debated around town in recent days. I mean, the EU is part of our makeup, but it does not define the U.K. The U.K. remains a strong and leading actor on the world stage in its own right. We are a nuclear power, a member of NATO, and you'll see us playing a leading role in Warsaw next week, a permanent member of the U.N. Security Council, member of the Commonwealth, and the G-20, and the G-7. Whatever the outcome of the consultations that will be taken forward with the EU in the years to come, you won't see the U.S. withdrawing, the U.K., sorry, withdrawing from the world stage. We will remain, as I said, a leading global actor. Thank you.

MS. HILL: Thanks, David. There was another, yes, sir. I'll take a few more questions and then come back to the panel. We won't forget the initial question. Thank you for your contribution. Yes.

MR. CHECKO: Thank you. Larry Checko, Accountability Central. To Aaron's point about Donald Trump and trade with England, I think we kind of forget that back in January the parliament had a debate as to whether to even let Donald Trump into the country. How much more complicated can this get?

(Laughter).

MS. HILL: Probably a lot more complicated. Yes, sir.

SPEAKER: I have an observation about the lessons for the U.S. from this that might draw. You have commented so far on the panel about the role of the out campaign or the leave campaign as a parallel with the Trump, but I think it's time also to look at the parallel between the remain campaign and the democrat campaign here. And I think there are a number of important and cautionary lessons to draw from that which have not come out.

The first one is that the remain campaign was headed by people who had just done a complete U-turn on their prior political careers. They made a career being Eurosceptics. And suddenly,

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they find, the prime minister I'm talking about, finds their self leading the campaign to stay in. It's not entirely surprising that he wasn't believed. It's a basic credibility problem.

The second issue was as part of that, he tried to sell as substantive a renegotiation of British relations with the European Union which he negotiated just before the referendum.

It plainly was not substantive from the point of view of the British political judgment, so he was selling a bill of goods, overselling a bill of goods, and people could straight through it.

The third thing, which we did mention as a lesson did come up in the panel very early on, is that there were real issues here, balancing wealth and sovereignty. These are not abstract notions. They are real. This goes to the question of the toning of the debate because the tone of the remain was not respectful of that fact.

They attacked the leave leaders as stupid dimwits. They said lots of stupid and dimwits things, no question about that. Attacking them as stupid dimwits felt very good. You felt self-righteous. But in its hearing, to people who might otherwise feel these real issues, feel real inclined to vote to leave, was you are calling us stupid, and it was offensive.

So while it felt good to accuse these dimwits, well, they are, of being dimwits, its consequence was completely counterproductive. And a key lesson for the democrats here to take away is that however much pleasure you may take in taking down all of Trump's nonsensical statements, beware how that is communicating to the electorate who actually do have some real considerations and concerns.

And the very last thing which the remain campaign did which was, you know, which (inaudible) described as the nadir of the campaign, days before the vote, the chancellor said there would be an austerity budget, a panic budget, introduced immediately following a leave vote, a statement which was transparently false, had no economic rationale. It was pure threat, and, again, that came over in the hearing of voters being an affront, a lie, a deceit. And it's not, I think if you really want to look at the source, where the U.S. should look for the source of this shock result is not so much in the antics of the leave campaign, but is in the manifest failings of the remain campaign.

MS. HILL: That's actually a very good point, and I'm afraid we probably won't have any time for additional questions and comments, but that was actually a very important point about the tone,

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and about how you communicate a really charged political atmosphere. I mean, we've tried to be (inaudible) here, but I can say that being from the northeast of England I don't like being called a dimwit, and I don't think anybody else does. And there's an awful lot of reasons that people voted to leave which are pretty complex.

Some of the people said it was the fear factor, and we've got that going on in the presidential campaign, people trying to scare people with different issues. But when a question is put to you in a referendum, you can interpret it in many different ways, and a presidential election in the U.S. is a little bit like a referendum as well.

You know, people didn't vote just purely because of, you know, globalization factors. Many people voted because they wanted to get attention to the fact that, you know, they have grievances and wanted people to wake up.

Some people voted because, you know, they saw a lack of opportunity, or they felt that there'd be more opportunity by leaving European Union because of, you know, regulation and other kinds of questions.

A lot of people who voted to leave were from the British Commonwealth and didn't like the fact that Rumanians and Poles were getting to the head of the employment que, where they had to find jobs with a certain wage, a certain salary level had to be able to actually, you know, get the job in the first place, and to get the right to remain in the United Kingdom, or they didn't like the fact that, you know, there were all of the, more competition in the job markets. All kinds of different reasons here.

As we look to this question, Aaron and Tom, I mean, how can we think about that playing out about the tone? I think there has been a strong lesson from that? Then, I mean, David, obviously had a number of points that I think can just stand. We had the question about Russia. I can check on that as well.

But, you know, the other question about how much more complicated can this get. I mean, how can this play out in different ways as, you know, we locked up and, you know, think about this, and everybody goes off to have a drink at the pub, and, you know, drown their sorrows after this? Aaron.

MR. KLEIN: Unfortunately, in America college students can vote and not go to the pub, which is another one of our idiosyncrasies with great --

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MS. HILL: Yes. (inaudible).

MR. KLEIN: And so in intern season, right. So, you know, one thing that I've often puzzled about the tone is that the left seems to derive a lot of pleasure in satire of the right. So you have Colbert and Stewart, right?

The right doesn't seem to really have those phenomenon about satire of the left, at least one at that level of commercial (inaudible).

Now, I know satire in America is totally different than the United Kingdom where we may be Triple A and you guys are the big leagues to mixing my metaphors, but I do think this question about tone is real because globalization, and trade, and immigration has had winners and losers. And even in economics, if you believe, well, the sum of winning is greater than the sum of losing, so, really, it's just a question of how we can, you know, move and spread the wealth around, another term in the United States that's pretty loaded, (a) we haven't done that, and we've failed to do that, (b) it's not clear that there's winners and losers, that you're a net winner if you don't have a full trade. One-sided free trade is, the economics of that of are very, very different. And I think there are real concerns about tone, and that measured with legitimacy.

On the other hand, it's very hard to have a factual debate with people who don't want to recognize fact. And, you know, if you're not going to have a factual debate, or you're going to have a debate about bullying and insulting.

I guess I'll close by saying that social media makes elections and referenda, and public democracy extremely different.

MS. HILL: Right.

MR. KLEIN: And I've been struck by the fact that this is, you know, the first presidential campaign where the candidates are tweeting each other. And that's a direct form of engagement where you used to have to just wait 'til the debate for that. And that's also a direct form of engagement with people.

Tom made a very salient point about this is really all a reaction to the global financial crisis. And I agree with that.

I'd also point out the last time we had a financial crisis in the '30s, and Tom was right in

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saying we handled our response a lot better than the great depression. That's not really gonna win you a spot on Mount Rushmore.

But the last time there was an extremely wealthy candidate from New York City who was the son of a wealthy person, who connected through a new medium with the populous wailing against the wealth, right? I'm talking about FDR and the telephone. I'm not talking about Donald Trump and Twitter.

MS. HILL: Very interesting. Let me just make, before going to Tom, a quick point about Russia (inaudible) here.

I'm thinking of Russian leaders, Vladimir Putin, and many others, getting to the point that's was raised about how much more complicated can this get. I think that is putting a break on, you know, some of the, perhaps, impulses to respond to this right now and try to get ahead of this.

We don't know where this is all going to play out. On the security front, this, you know, might look very promising, you know, from the point of view of Moscow, or Beijing, or a whole host of other places. You've got a weak EU. The United States, you know, (inaudible) to the EU (inaudible) relationship in Britain seem seems to have been, you know, pulled away from its moorings a bit, not quite gone yet, but, you know, pulled away, right?

There's a NATO summit, you know, already being mentioned, and as David said, you know, this is still going to be a major feature, but it looks a lot less consequential against the backdrop of everything that is happening in the global strategy. EU got kind of lost in the noise, or the NATO summit got lost in the noise. I mean, Britain will still be playing a role there, but all of this is going to play out for a long time.

But then the bigger uncertainty is the economic uncertainty. As Homi said right at the very beginning, this isn't really good for lots of emerging markets, and Russia still has all of the appearance of an emerging market.

When some of the Russian economists were through here recently for IMF and the World Bank meetings, I spoke to a couple of them, and they were not very happy about this prospect of Brexit. They have been, you know, thinking about what this would, impact would have for their holdings, and the long-term health of their economy too.

So I think, you know, it's incumbent upon a lot of people now to see how this plays out.

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It's going to get a lot more complicated. There could be a lot of opportunity, but, actually, Putin, I think, put it on itself when he had a comment on this, that he could see lot of upsides and downsides for Russia, and I think that that's the case for all of us.

Tom and Homi, if you have some last comments on this, particularly on tone and some of the other issues --

MR. WRIGHT: Yeah. No, I agree with Aaron and what Aaron said on that. The point I would just leave you all with, I guess, is I do think that this is a, it's, obviously, a crucial moment not just in Europe and in the U.K., but also, I think, for the global order more generally because the United States needs a strong Europe, and needs a strong U.K., and needs a strong global economy, and I do think that the U.S. administration, the next administration, and this one, has an important role to play in this crisis.

The U.S. should be engaged diplomatically with European governments, initially maybe to moderate the anger that some of them feel toward Britain, and to try to steer sort of the negotiations in a more sort of constructive way to cushion the blow of exit, and then maybe down the road to explore options to avoid it all together, but, certainly, try to insure that if it happens, it happens in as order a way as possible, and that is as it reduces the net negative as much as possible.

I do think it's a negative, but there is better and worse ways of going about it, and now that the decision has been made, at least in the short to medium term, and it's important (inaudible) in a responsible way.

MS. HILL: I think that's actually right, Tom. Homi, some final thoughts.

MR. KHARAK: I think one of the most striking features of this was how from an economic point of view, almost every single independent analyst was on one side of the equation, and it really made no difference. So --

MS. HILL: (inaudible).

MR. KHARAK: Exactly. I mean, I think it suggests that we are in a very different world of how to communicate, what people worry about, how to engage in discourse, and it's not necessarily about the same kind of things that we have been used to using, the same kinds of arguments that we've been used to making, and partly that may just be an inability to actually break through to different audiences, and audiences today by and large self-select what it is that they want to hear, and that makes changing of

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minds a very, very difficult process because it, you really get an opportunity for a real true debate. That will make things much more complicate in the future.

MS. HILL: Well, that's a challenge for us here at Brookings, and, actually a challenge for all of you hear in the audience as you, you know, talk about this, and engage in it going out, and many of you are actively involved in this. But I think that's exactly, we've got to find different ways of talking about this. We've got to bridge all of the divides that we've been highlighting here.

And I'm sure there will be many more discussions about this, (inaudible) colleagues for years to come still talking about this question.

But thank you, all of you, for joining us this evening.

(Applause)

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