

Market Matters

'Brexit' points to the advantages of open borders versus closed

Several thousand miles from North America, an island nation has voted to terminate their close economic and political relationship with the mainland countries to their east. British citizens want to leave the European Union. While many claim the vote was nothing but a protest and a large share of those who voted for it did not really want or expect it to succeed, succeeded it did.

Passage of the "Brexit" — the nickname given to the vote results — begs the question: "Why should we care?"

Our exports to Britain comprise about 2.4 percent of our total exports and secession from the EU does not eliminate Britain as a market. Our security ties will not disappear nor will our bond based on a common language and history. Yet there are costs the scale and extent of which we and all other analysts can only speculate about.



The post-Brexit devaluation of the British pound relative to the dollar will make it more difficult for U.S. manufacturers and service providers to sell into the British market. U.S. multinationals with a strong presence in Britain — many have their EU headquarters in and around London — will bear the cost of shifting operations from Britain into an EU country and finally, and perhaps most importantly, is the concern that Britain's vote will snowball to other countries causing the EU — an institution that through tight economic and social bonds has kept western Europe at peace for over 70 years — to disintegrate.

In today's economic system, goods and services are sourced across the globe. Most British companies rely on parts, products and services created outside the country to build finished goods. Yet those parts, products and services just got

about 10 percent more expensive due to depreciation of their currency just before the Brexit vote. And this is before factoring in the as-yet-unknown friction and perhaps tariff costs Britain may face as a non-EU member-state. Of course, the lower currency valuation (barring tariffs) should make British exports more competitive on the global stage. Yet, to the extent their exports require imported components, this benefit will be nullified.

If a company was considering expanding its presence in Britain — perhaps a new manufacturing facility or service center — those plans are now on hold. Who, in their right mind, would build up a presence in a European country that may no longer have unfettered access to the much larger European market? Scores of multinationals currently have their EU headquarters in Britain and the race is on as other non-British cities compete to attract those headquarters and the powerful economic activity they represent.

While, for reasons described above, the Brexit is likely to cause Brits some pain the larger and, in our view, more important questions are: "Why did this happen, is it likely to spread to other countries and what does this mean for the United States?" These will be written on these topics. It's a ripe new field for research. Of course, such future analysis does us absolutely no good today.

It's clear in Britain, and many other countries, a good share of the population does not feel they have benefited from global economic growth over the last several decades. They see flat wages, elimination of stable, well-paying manufacturing jobs and ever-expanding holes in the safety net. They also see a segment of the population (the 5 percent?, the 1 percent?, the one-tenth of 1 percent?) that is thriving. Through this lens the system is clearly not fair, or, as one U.S. presidential aspirant would say, "rigged." To many, it feels like external forces are the only identi-

fiable cause of the problem. Stick a refugee crisis on top of the economic stagnation these folks have experienced and you have a recipe for throwing up walls, distancing from the international systems and taking care of one's own.

We have a choice between open and closed. Open implies we continue to open borders around the planet to the free flow of labor, capital and ideas. Closed means each of us goes it on our own. Open is far from perfect. We are in the midst of perhaps the most rapid expansion between haves and have-nots in history. Large segments of the population are struggling to make ends meet. Yet there are policy solutions to these issues if we can summon the will to act. Following the siren towards closed on our ever-shrinking planet is the road to disaster. We hope we choose open.

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