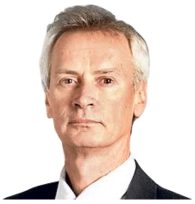
The Telegraph

UK and Europe face Mutual Assured Destruction if they botch Brexit

- AMBROSE EVANS-PRITCHARD 

Whatever the result of Britain's referendum on the EU we can be sure of one thing: there will not be a global financial crisis the next day.

Nothing dreadful will suddenly happen. The US Federal Reserve, the European Central Bank, the Bank of Japan, and the Olympian fraternity of money printers will stand with the Bank of England, ready to flood the international system with liquidity.

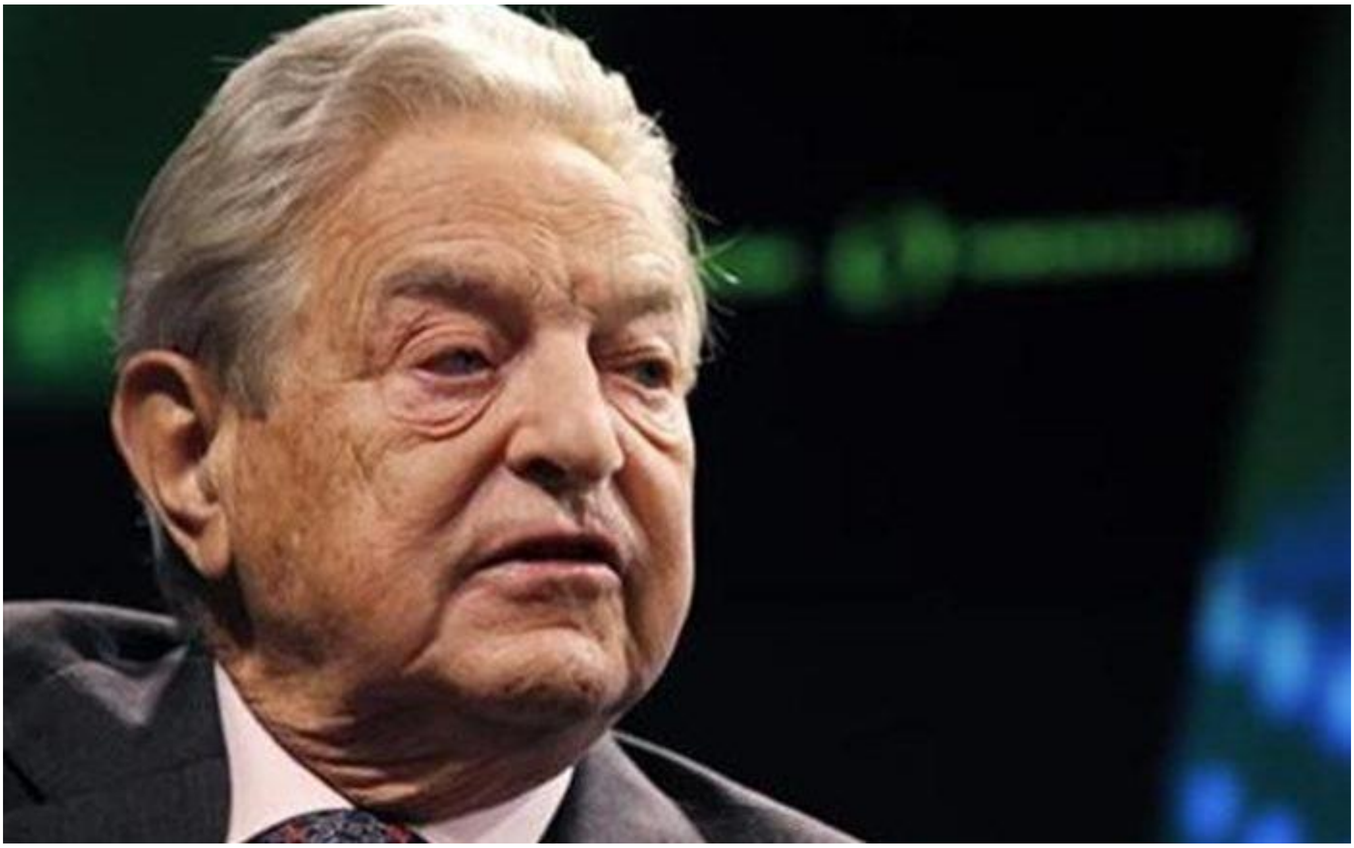
The central banks have had months to prepare, and they have prepared. Currency swap facilities are in place to cover the dollar funding needs of UK-based banks, and many of these are well-insulated branches of American, European, Asian, and Mid-East banks in any case.

The circumstances are nothing like the collapse of Lehman Brothers in September 2008, a Black Swan event that caught the world off guard and metastasized only because the US authorities unwisely choose to make an example of the hapless bank and let the debacle occur. Nobody will fret piously about moral hazard this time.

Central banks have learned the lessons of Lehman and of Europe's debt crisis: that events can spin out of control if they fail to an act as a lender-of-last resort in moments of extreme stress.

Yes, we must heed the warnings of experts, so long as they are acting in their expert capacity, and this is where the British government and its allies in the global nomenklatura have badly muddied the waters. The Treasury's claims of a 3.6pc to 6pc crash in output are patent propaganda - intended to frighten people - since they start from the political premise that Britain's authorities will entirely abdicate their fiscal and monetary responsibilities.

More worthwhile are comments from George Soros, the speculator turned philanthropist, and a man I admire for his humanitarian campaigns, as well as for his heroic role in liberating Britain from Europe's Exchange Rate Mechanism in 1992.



George Soros, the hedge fund legend who rescued Britain from the ERM in 1992

Mr Soros tells us that Brexit will not be as benign as 1992 when the Bank of England was able to slash interest rates, end recession, and head off a collapse of the housing market. This time we will suffer all the pain of devaluation - 15pc, or 20pc, or more - without the cuts in rates. And we have enemies.

"Today, there are speculative forces in the markets that are much bigger and more powerful. They will be eager to exploit any miscalculations by the British government or British voters," he said.

This cannot pass. We are not in recession, and we do not need rate cuts. If sterling really fell by 20pc, it would be painful for eurozone exporters but a net economic stimulus for Britain in strict macro-economic terms.

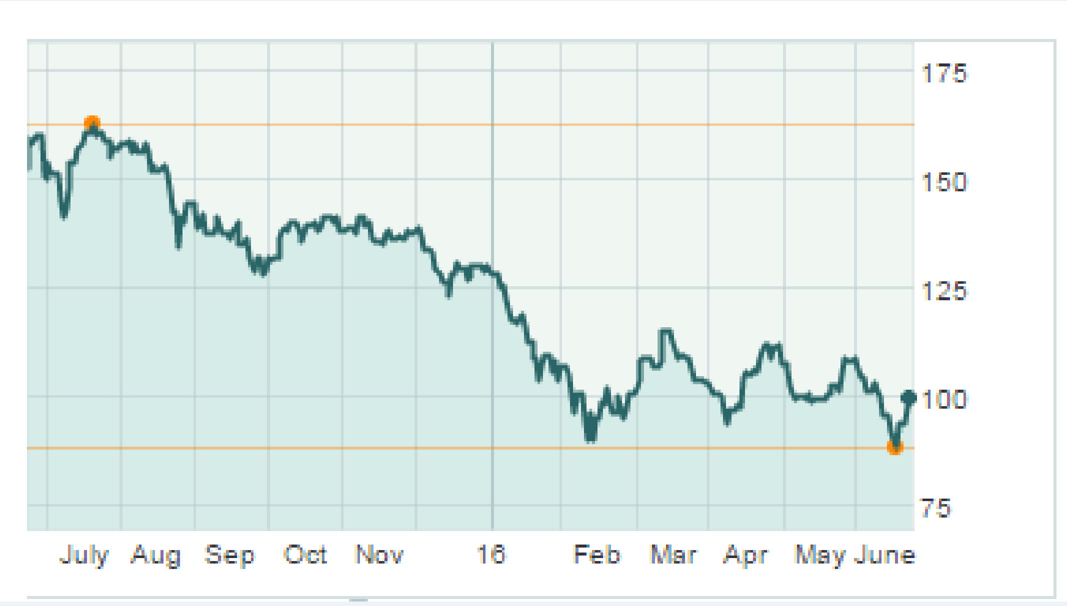
I would rather that we did not have to vote on Brexit at a time when Britain's current account deficit is 7pc of GDP and we are so reliant on inflows of foreign capital to fund consumption. But the imbalance is prima facie evidence that the pound is too strong.

Devaluation is a crude cure - though no panacea - and a weak exchange rate holds no fear in a world in where everybody is trying to drive down their currency to stave off deflation.

Whatever Mr Soros really thinks, he is not speaking as an expert. He is speaking as a passionate advocate of European unity, understandable given his war-time trauma as a Jewish boy in the Budapest ghetto.

I do not wish to belittle the contagion risks in Europe. Officials in Brussels fear that Brexit could set off a financial run in the eurozone periphery, lifting the lid on Portugal's multiple woes or crystallizing the non-performing loan crisis in Italy's banks.

Every time a new poll flatters the Leave side, we see hints of stress. Bond spreads spike in Club Med and Eastern Europe, and Euro STOXX index of bank equities plummets, turbo-charged with extra leverage.



Euro Stoxx bank index has been moving in lockstep with the Brexit polls, a sign of where stress lies

But right now the ECB is purchasing €80bn of eurozone debt each month, and is running out of bonds to buy. As of today, Ireland can borrow for ten years at 0.78pc, Italy at 1.35pc, Spain at 1.49pc, and Portugal at 3.13pc. The bond market is shielded from attack.

There may well be a slow 'political' contagion if the EU project is shown to be reversible, though the rise of the eurosceptic Right in France is an infinitely greater threat to EMU integrity, and that has little to do with events in Britain.

The real danger for the eurozone is a global downturn before the region escapes its debt-deflation trap, for that would expose the festering pathologies of monetary union. It is doubtful whether the ruling order in France, Italy, or Spain could withstand another surge in unemployment.

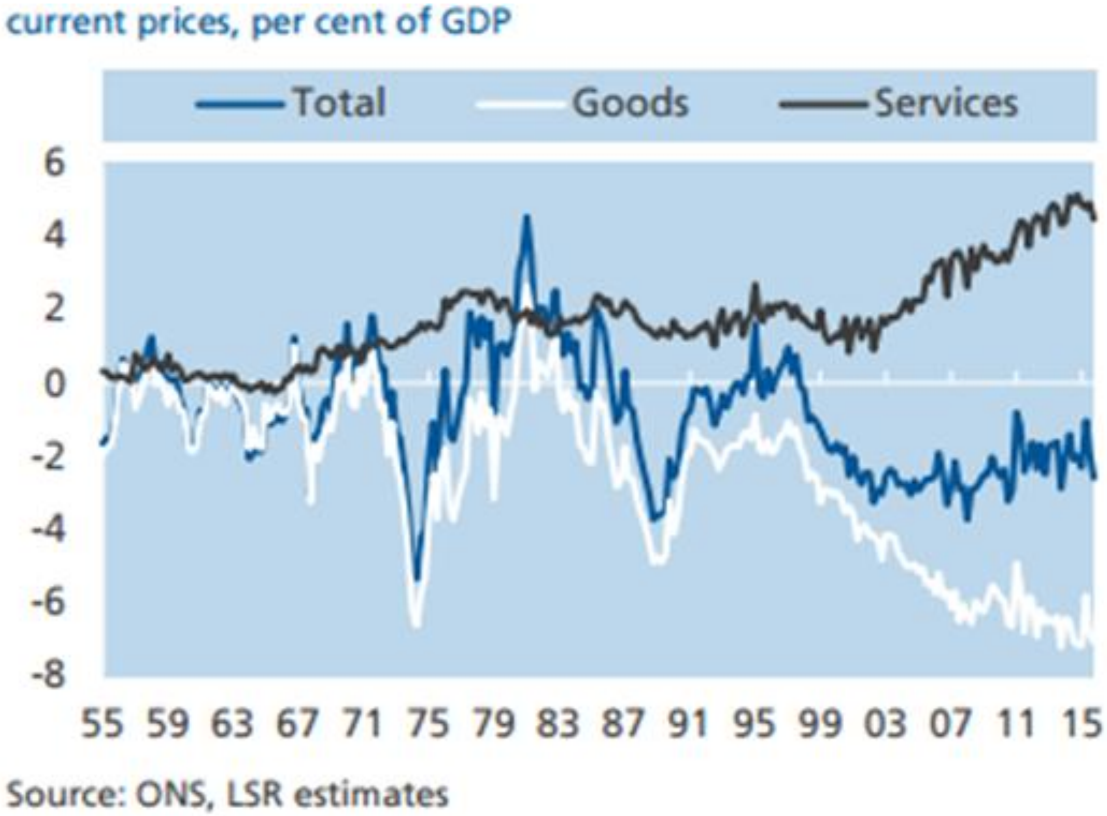
Precisely for these reasons it would be grievous self-harm for the EU to provoke a deep recession in the UK by trying to 'punish' Britain. The fall-out would engulf them too. Let us call it MAD - Mutual Assured Destruction - in fond memory of deterence in the Cold War.

For Britain, the dangers of Brexit are not immediate. They are hazily distant and they have been well-rehearsed in this campaign. If a post-Brexit government fails to offer a credible trade and finance policy, Britain could lose its global footing and slide into decline, like the Dutch in the 18th Century.

My preference is the European Economic Area, the Norwegian option, a temporary way-station to retain unfettered access to the EU market and 'passporting' rights for the City. It is a withdrawal in safe stages, with all the compromises that this entails.

Remainers warn that the EU might block this. Some even claim that it would have to crush a post-Brexit Britain as a demonstration to prevent others breaking loose. There would be no kid gloves for "deserters" in the telling words of Jean-Claude Juncker, the Commission chief.

But to argue such a case is to imply that the EU can be held together only by coercion, like the British, French, Spanish, and Russian empires in their day. It is to suggest that the EU is a prison, and if that were the case the project could not possibly have any future.



The UK's current account deficit is the worst in peace-time since records began, but a weaker pound would help CREDIT: LOMBARD STREET RESEARCH

We are told too, with the gun of moral blackmail held to our temples, that Europe's strategic order will unravel if we pick at the EU thread, but this an evasion. The EU is unraveling already because the status quo is intolerable and a failed currency project is sapping its credibility. It is far from self-evident that this supranational venture should be saved in anything like its existing form.

There are certainly grave threats to the world economy, but none have anything to do with Brexit. China's latest mini-boom is already topping, and nobody knows whether the Communist Party has reached the limits of its $28 trillion experiment with credit.

We are seven years into this global cycle and signs of ageing are too obvious to ignore, not least the collapse in US bond yields to depression levels. "More Economic Signs Point to a US Recession", warned a front-page headline across the Wall Street Journal this week. The labour market has buckled. Car sales have slipped. Business investment and profits are both falling.

This may be a false alarm but what is slightly chilling is the sudden ideological pivot by the St Louis Fed, which has come close to suggesting that the US authorities may not be able to restore the economy to equilibrium. We face a daunting world where central banks have used up their ammunition, and there is no political consent anywhere for a fiscal New Deal or the nuclear option of helicopter money.

But whether we vote Leave or Remain will not change any of this. All we can do when the next global recession hits is to fall back on Britain's tested institutions and our own elected Parliament to protect us. The EU certainly can't.