

These EU Countries Will Soon Follow Britain's Footsteps

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What a pickle. If [Brexit](#) is a success, it will bolster anti-EU sentiment across Europe. If Brexit is sabotaged by the EU, it will expose the EU's nature... and bolster anti-EU sentiment across Europe and elsewhere.

The EU must feel surrounded by problems. To the west, the UK is leaving. To the south, bizarre government budgets require steady bailouts, support from non-EU institutions, and absurd [monetary policy](#). In the north, the mood for integration is fizzling. And in the east, you have open defiance of EU policy. Behind that, literally and financially, you have Russia.

You might think Brexit is the big story of the lot. It obviously is for Brits. But I'm not so sure Brexit itself is the key to Brexit. That resides in [how the EU reacts to our departure](#).

One year ago, I was touring eastern Europe with the Free Market Road Show. A bundle of speakers from all around the world tried to espouse free-market values and explain the benefits to an audience between 50 and 500 people across dozens of cities.

We talked about the surprising amount of Land Rovers at Moldova's border with EU nations, why Uber was turning to governments for protection like former Soviet state-owned enterprises, and how so-called free trade agreements are like a thief offering to give you back some of the cash they stole in the first place. Then we'd charge off to the next city.

The flaw in the plan, as I could see it, was that some in the audience implicitly understood what we said and therefore planned to leave for western Europe at the earliest opportunity to join the others who had figured it out.

The rest of the audience planned to work for the government because that's the only secure job around. In other words, the collectivist culture dying around them had turned the locals into individualists of the wrong kind. Runaways and those motivated by fear, not optimism, ambition or wealth.

That explains why eastern Europe is turning nationalist. People want the security once promised to them. Those willing to pursue a dynamic life have left for western Europe. And the rest turn to a strong government.

Poland, Hungary, Slovakia and soon Czechia, which changed its name from Czech Republic without anyone bothering to take note, have all fallen to eurosceptic, anti-immigration and populist leaders. Many of Italy's leading parties increasingly campaign for a new currency too. The movement [didn't die with Marine Le Pen](#).

But back to eastern Europe because it's the key to Europe's future. These are the nations supposedly benefiting most from being inside the EU.

The first thing you notice in these poorer nations of the EU is how many bridges the EU has built there. Bright blue footbridges proudly declaring EU funds built them scatter the countryside in all sorts of surprising places. Behind one such bridge on the way to Montenegro I saw a queue for an outhouse in the middle of a bunch of fields. The American sitting next to me in the car asked what it is and why there are people queueing there.

Of course, it's not just bridges and EU government funds. Western European companies have used the east's low cost of labour to build factories. I met a Swiss-German packaging magnate who had filled eastern Europe with his booming factories. Thomas Piketty recently wrote in one of his co-authored economics papers that eastern European countries are "Foreign-owned countries". Foreign direct investment has been pouring in at an enormous pace. This means profits flow straight back out of the country too.

The whole deal doesn't look so good from their point of view. Czechia's president recently declared the country would be better off rejecting the EU's refugee quota and forgoing EU subsidies.

These sorts of [problems are inherent in the EU](#). Throwing a bunch of cats into a bag and beating it with regulations and mass refugee immigration does not work well to promote harmony even if you pour in cream. Eastern European states are familiar with unions that benefit others.

Signs of the breakdown are spreading right across Europe though. I spent half an hour waiting at the German/Austrian and

Austrian/Italian border in the last few days thanks to border controls. Google Maps explains how to bypass them with its traffic warnings if you bother to check in time.

[The cracks in the EU](#) are getting deeper all the time. This results in good and bad changes. With the UK gone, it will increasingly be bad changes. Negotiating with an EU that has its back to the wall will be hard.

Brexit's justification turns hollow

While Brexit progresses well, its justification is being hollowed out.

In the UK, anti-immigration sentiment now looks totally pathetic. After the [new immigration system confirmed](#) that only a tiny fraction of the "vanishing" visitors actually stay in the UK and create, I mean steal jobs, it now turns out that British firms prefer to employ Brits. What a surprise...

The British Chambers of Commerce surveyed job creators to discover they prefer to spend money on training and upskilling locals. It's rare for firms to turn overseas for recruitment immediately.

Not only that, but while 40% of British firms employ foreign EU workers, 23% employ those from outside the EU. Given the proximity of EU nations means they're a natural fit, that hardly suggests we disproportionately rely on being inside the EU system for immigration. It just means treating EU citizens the same as others.

Hopefully this will help turn the Brexit movement into something that supports immigration of workers equally from all nations based on merit, not political alliances. But it also further discredits the referendum result as based on [incorrect migration figures](#) and incorrect assumptions about employers.

Meanwhile, the pound is providing plenty of ammunition for Brexit enthusiasts. It's at a one-year high against the US dollar and rose against G10 counterpart currencies after the Brexit bill passed Parliament. With inflation too high, the odds of a rate increase at the Bank of England are increasing.

Brexit Britain is well on track, for now

This cheery edition of *Capital %26 Conflict* needs some humour. It comes in the form of a new study on offshore wealth. It confirms that it isn't the capitalists who like to hide their wealth. Those evil socialists, monarchists and populists are the real tax evaders!

One-tenth of the world's total wealth is held in offshore tax havens, but that share jumps to as much of 15 percent for Europe and as much as 60 percent for Gulf and some Latin American countries, new research shows. When it comes to total offshore wealth as a share of GDP, the United Arab Emirates, Venezuela, Saudi Arabia, Russia and Argentina lead the pack, while Germany, the U.K. and France all have above-average holdings. The U.S. is slightly below average.

It's a great example of confusing cause and effect. Crackdowns are what force wealth overseas. Capitalism brings it back home and puts it to work.

Hopefully our government will figure it out in [time to prevent this](#).

Until next time,

Nick Hubble
Capital %26 Conflict