

# Brexit – no panic, please

By Prof Dr Teodoro D. Cocca  
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The economic consequences of Brexit for the population of the UK have so far been rather overestimated, while the political ramifications for the EU have arguably been underestimated. Economic horror stories for the UK – of which there are quite a few at the moment – are circulating, although on closer inspection they are not wholly justified. Following a shock event, unease on the markets can persist for a while, although calm will be restored once clarity is given as to how the process will now move forward. In particular, the contractual framework regulating ongoing relations between the UK and the EU will need to be clarified. Given that both sides have an interest in finding a mutually beneficial solution, a scenario whereby the UK is isolated from European trade, a unilateral cutting of the cord as it were, is not conceivable. Obviously, it may well be the case that the some company withdraws operations from the UK, transferring jobs to continental Europe, but switching headquarters in this style is tied to a whole host of factors. Moreover, when looking at the details, one will quickly note that, in terms of key location factors, Paris, Amsterdam and Vienna lack that certain something offered by London, regardless of the fact that the newspapers are



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currently attempting to outdo each by spreading this notion. In a relative comparison, the few location factors in favour of continental European cities could well be eliminated by the weak pound. Something which has been completely overlooked in the multitude of forecasts and predictions is, firstly, the reaction of the British government to this new exit scenario and, secondly, the reaction from the EU. Let's deal with the UK to begin with: given that the EU has always been somewhat of a sore subject for the British people, with implementation of EU directives akin to being trapped in a corset, the polar opposite of British political tradition, Brexit represents some-

thing of a bid for freedom. It will now be very exciting to observe the measures taken by the government to support the role of London as a financial centre (a reduction in corporation tax has already been announced – ouch, London is already targeting the EU's Achilles' heel). In doing so, the UK will benefit from its traditionally very liberal economic structure, which it can now implement without having to consider other EU member states. London has now been afforded leeway: independent decisions regarding banking supervision can be taken, while there will also be greater autonomy in fiscal and economic policy. It is possible that London will choose to intensify economic relations with the USA, Asia and the Middle East. Perhaps a completely different European model will successfully prevail over the next decade in northern Europe. That would not come as a complete surprise when one takes an objective view of the current state of the European Union.

Instead of wracking one's brains considering the ramifications of Brexit for the UK, it seems to me that the potential consequences for the EU are far more alarming. The EU now risks becoming less diverse (the UK certainly holds opposing opinions on certain European matters from time to time, serving only to enrich political discourse), less liberal (the remaining Italo-Franco-German axis guarantees a very state-orientated approach), less economy-orientated (in continental Europe this equates to a swear word), less influential (the UK is stronger militarily than the remaining EU member states), less affluent (the UK makes a not-insignificant financial contribution to the EU) and arguably less democratic (which government will now afford the electorate, who are oh-so-easily-manipulated with populist moves of course, increased opportunities to engage in democratic discourse?). Some Europeans will now be watching carefully to see how well or, as the case

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may be, badly the UK fares outside of the EU. It would be bad for the EU if the effects on the UK were not as negative as anticipated. From the perspective of the many EU sceptics – albeit not anti-European – within Europe, an even worse scenario would be if Brexit were not, finally, the catalyst for fundamental discussions within EU institutions. This is my biggest fear. Over the past couple of weeks, too much time has been devoted to offended politicians making scathing remarks about the UK. In my opinion, it would be far better to take Brexit as a clear signal that this period should be used for critical self-reflection and consider a fundamental change of course with regard to EU policy.

I do not believe that the reaction on the stock markets so far is sufficient to talk of a panic. It is now three weeks after the result of the referendum and a sense of calm has been restored to the markets in line with expectations. The extent of the price fluctuations seen on the markets following the announcement of the result was exceptionally unusual, although investor mood has not changed as dramatically as one may have expected according to indicators analysed by us. In a time comparison, the extent of the pessimism observed

in the meantime is not out of the ordinary. In the past few months there have been repeated phases of similarly high pessimism. From this perspective, the reaction to Brexit has not been that unusual, at least initially. With regard to the medium-term, the mood has also worsened, although not to a hugely significant degree. In addition, the proportion of investors who take a pessimistic view is at a normal level overall. However, the fact that medium-term expectations can be regarded as within normal parameters does reveal that a clear picture with regard to the long-term consequences of Brexit has yet to crystallise. Despite a rather volatile initial reaction, current share price levels (EURO STOXX as at 8 July: 2,838 points) on the European stock markets are not really any worse than as at 14 June (2,797 points) in the run-up to the referendum, as the likelihood of Brexit happening was seen as increasingly unlikely. Up until now, the reaction seen on the European stock markets has been, at least to some extent, a (small) correction of the upwards momentum seen in the days leading up to the Brexit referendum. Overall, the psychological picture can be summarised as follows: market participants have been totally wrong-

footed by this event. A classic scenario has been brought about in which the short-term effects have been overstated and the long-term consequences have been underestimated. The assessment of the long-term effects does not, in actual fact, seem trivial. The coming weeks are sure to bring increased clarity with regard to the political effects Brexit will have for the EU. The key question for the capital markets is, in my opinion, whether or not Brexit will devastate the political landscape across Europe. Without doubt, the European capital market is in a delicate state following the outcome of the referendum in the UK. Unpredictable aftershocks tend to typically play a part in the formation of genuine crises, and as such the European markets would currently be particularly susceptible to such events. In this regard, threatening storm clouds are arriving from the south. It is my opinion that investors should give more thought to the situation regarding Italian banks than to Brexit. The “bad loans” of Italian banks are a powder keg. The fuse is smouldering. Should the unease on the capital market drift over to Italy, the fuse could ignite, and we will look nostalgically back on the comparatively peaceful Brexit days of yore.

# Employee Misclassification in California: Issues and Strategies

By **Robert A. Bleicher**

Uber’s \$100 million class action settlement with drivers who claimed they were misclassified as independent contractors rather than employees caught the attention of businesses across

California. That attention is warranted. Recent decisions by courts and government agencies are clear that labeling a worker an “independent contractor” is immaterial. Instead, courts and regulators look behind the designation to assess the extent of the company’s right

to control the worker. While personnel and cost savings by hiring an independent contractor can be substantial, the expenses from misclassification can be far greater. The following is a brief summary of factors a business should consider and implement to reduce its