Mass politics versus elite interests. Mad dogs and Englishmen. That's the Brexit referendum in a nutshell.

Make no mistake: this is an internecine struggle between political elites. Brexiters such as Boris Johnson, and UK Independence Party (UKIP) leader, Nigel Farage, paint the European Union (EU) as a remote, authoritarian entity, staffed by automatons in Brussels, bent upon the destruction of the last vestiges of British sovereignty and independence.

The Remain camp is also brimming with elites. But it is also an uneasy and awkward alliance of moderate Tories, Euro-enthusiast Lib Dems and the reluctant Labour Left. Awkward because Jeremy Corbyn's Labour and the David Cameron Conservative Party are unnatural bedfellows. Uneasy because Corbyn Labour does not particularly want to be aligned with the 1,280 business leaders who have backed the Remain campaign in an open letter.

The Guardian's Paul Mason was right to call out the establishment credentials of the Brexiters. The Leave campaign represents an audacious attempt by elite political figures to stage a Europhobe coup in British politics, mobilising working-class voters, football hooligans, vengeful UKIPers and elderly Little Englanders – anyone, in fact, who may be suffering from relative deprivation, an irrational dislike of immigrants, or a general distrust of anything Continental.

But the debate has been sterile and, at times, asinine. Brexiters, like former Education Secretary Michael Gove, have compared Remain economists to Nazi scientists condemning Einstein. Boris Johnson has claimed the EU wants to build a "superstate" like Hitler.

Interspersed among the generally witless white noise of the Brexit debate, the death of Labour MP Jo Cox last week demonstrated how virulently ugly the campaign had become.

How did it come to this? The answer lies in the troubled affair Britain has had with Brussels for over 40 years.

Something rotten in the kingdom of Belgium

In 1999, Britain did not join the Eurozone. But London did. The City does 75% of all Eurobond business, while more than 50% of all euro-denominated transactions take place inside the square mile, dwarfing the combined euro business of the Paris and Frankfurt bourses. “We did not create the euro,” a French former finance minister said bitterly – and privately – “so that Britain could make the majority of profits from it.”

That is why the EU’s proposals in 2011 to pursue both a Financial Transaction Tax (FTT) and a Fiscal Compact generated so much anger from David Cameron. The FTT was the tinderbox that generated an inferno in the Conservative Party, forcing Cameron to confront the issue directly. In 2013, he made a Commons speech that committed him to an In/Out referendum by 2017.

Cameron had sought to manage an internal party disciplinary problem by externalising the issue and proclaiming the EU was the problem. In late 2012, the UK only narrowly avoided a triple-dip recession. Cameron’s premiership was under threat from Euro-phobe Tories.

25 years ago, it was the pro-European Tory wing that had toppled the seemingly-invincible Margaret Thatcher in 1990 whose final act - to join the EU’s Exchange-Rate Mechanism - led to the humiliating collapse of the pound in September 1992. Thatcher gave in to the Europhiles to appease them in the vain hope of saving her premiership. Cameron, confronted with precisely the opposite problem, was not about to make the same mistake. Instead, the Prime Minister confronted his own critics head on, promising a hard-headed deal with Brussels, while ensuring Britain retained EU membership.

In February, Cameron got his deal. Britain would not be compelled to join the Eurozone; restrictions were placed upon migrants’ and their children’s benefits as well; Britain was excluded specifically from any plans for a pan-European political confederation; and a non-discrimination clause was secured for the City of London and British business. The latter was the most important; EU regulatory legislation could not discriminate against UK firms, forcing them to relocate to the continent.

A frequent Brexit claim is that Britain is suffocated by Brussels’ draconian regulations. But the UK pushes well over 90% of the legislation it wants through the Council of Ministers, the EU’s intergovernmental executive. It can also draw a red line under any offensive legislation by employing its national veto, which it has used or threatened to use on many occasions, thus extinguishing legislation that British governments refuse to accept. However, like all international politics, the legislation that does emerge is always the result of compromise.

A comedy of errors

Since 1975, the British Labour Party has never been entirely convincing in its Europhoria. Prime Minister Harold Wilson set the precedent with the first EU stay/leave referendum. Although Wilson had opposed the terms upon which his predecessor, Edward Heath, negotiated to accede to the EU, the Labour Party supported EU membership nonetheless. The voters agreed, with an overwhelming 67% backing Britain to remain in Europe.

But Labour's dalliance with departure didn't end there. In 1983, Tony Blair, Gordon Brown and Jeremy Corbyn were all freshly-minted members of the House of Commons. During the "Falklands election", each of them signed Labour's election manifesto, known as "the longest suicide note ever written." In this infamous tome, Labour committed to a phased withdrawal from the EU "within 10 years." Thirty years later, all three men have led the Labour Party. None was a Euro-enthusiast, despite protestations to the contrary.

In 1997, Tony Blair promised a referendum on Britain joining the Eurozone; the referendum never happened. Ironically, it is David Cameron who secured a deal in February 2016 with the EU guaranteeing that the UK would never be compelled to join the euro, thus accomplishing at a stroke what British Labour long promised, but could never quite compel itself to do.

Corbyn has mounted a Remain campaign, arguing that Britain can only reform the EU from the inside. But as Farage and Johnson successfully usurp Labour's working-class base, Corbyn looks, at best, like a reluctant European.

Corbyn and Labour's own ambiguous and awkward relationship with Europe over 40 years has led to this perception problem. Corbyn should have talked up the EU Social Chapter, the document that John Major steadfastly refused to sign. Instead, Major introduced the Deregulation Act in 1994, making Britain the most deregulated labour market in Europe. Once in office, Tony Blair immediately signed the Social Chapter, introducing a host of rights for British workers, including paid maternity and paternity leave. Two million British workers gained minimum annual paid holiday leave.

Brexit, stage right

What impact would a Brexit have on the UK economy? The UK-EU two-way trade totals over £500 billion per annum, comprising £227 billion in exports and £288 billion in imports from EU, with a total trade deficit of £61 billion, The deficit is not surprising, given the significant productive inputs going into the UK's manufacturing sector.

Britain and Germany are Europe's two biggest economic partners, with 10% of all UK exports going to Germany, with close to 15% of British exports coming from Germany. Over 50% of all UK traded goods exports go to the EU, with 44% of goods and services exports in total.

Much has been made of the UK's contribution to the EU General Budget, comprising a gross figure of £12.9 billion per annum. However, after rebates (which cannot be altered without UK approval), the net British contribution to the EU is £6.4 billion, making the UK the fourth-largest net contributor, behind Germany, France and Italy under the 2013–19 General Budget formulation. Approximately £1 billion of Britain's net contribution is spent on foreign aid; the EU is the world's largest aid donor.

As the referendum has drawn closer, global markets have gone from sanguine to jittery, despite the fact that if Brexit were to occur, it would take at least two years to negotiate.

Warnings of a sterling collapse and recession have led investors to fly for safety. The Eurozone has not been immune to fear contagion, with European Central Bank President Mario Draghi reassuring markets that the ECB was prepared to step in and calm markets, if necessary.

Back in November 2015, Wolf Richter argued that Brexit would be a 'non-event'; the UK could simply join the European Free Trade Association (EFTA), comprising Iceland, Liechtenstein, Norway, and Switzerland and gain free trade access to the EU. After all, the UK founded EFTA in 1959.

Except that Richter is wrong. EFTA membership does not grant FTA access to Europe. The EFTA countries are integrated with the EU Single Market through the European Economic Area (EEA) agreement of 1994. Switzerland rejected the EEA and, instead, signed a number of bilateral treaties with the EU. That is because Switzerland is a central pillar of the French, German, Austrian, Dutch and Scandinavian financial services sector and could not be excluded from the EU's integrated banking and finance markets.

Brexit would also remove Britain from the Transatlantic Trade and Investment Partnership (TTIP), the US-EU mega-regional FTA currently under negotiation. Britain would be forced to negotiate, from scratch, FTAs with the US (Obama has claimed London would go to the back of the queue) and, possibly, Canada, Australia and New Zealand.

Let's not forget Britain imports most of its food. For Britain to negotiate FTAs with key Commonwealth countries would virtually restore the 1932–72 Imperial System of Preferences.

Meanwhile, don't imagine Australia would be unaffected by Brexit. Britain has almost $AU500 billion in direct and portfolio investment in Australia, second only to the US. Domestic economic instability would cause at least some UK investors to repatriate a proportion of their foreign investments, as domestic financial instability typically reduced liquidity and prompts investor retrenchment.

More than 2,000 UK firms operate subsidiaries in Australia. The British pharmaceutical industry also has a significant presence in Australia, alongside firms such as British Aerospace.

To be or not to be in Europe?

Britain doubled the value of its automotive exports between 2003 and 2013. By 2014, the UK car industry was chalking up £25 billion in exports per annum. As of 2016, 57% of these exports go to the EU. In 2015, from a total production volume of 1.58 million vehicles, 77% of all British-manufactured cars were exported.

UK manufactured exports are now only 6.5% of GDP, versus the financial services sector's approximately 12% in exports. But the British government wants to protect, more than anything, is its financial services sector.

The City financial system's annual turnover is over 10 times the size of the UK's $US2.99 trillion GDP (not a misprint). New York and Tokyo are mere pygmies by comparison. The City alone produces over $US560 billion in GDP, or around 19% of UK GDP. If the City were a country, it would be the 21st-largest economy in the world.

But the financial sector alone employs relatively few workers. There has been no convincing economic modelling that suggests anything but a fall in UK GDP and a consequential reduction in Treasury revenues, if Brexit occurs, thus opening the door to a severe economic contraction, at the very least.

The Scottish play

Not even two years has passed since Scottish voters elected to remain within the United Kingdom. If Britain left the EU, this would likely compel the Scots to hold another referendum on UK withdrawal.

In the interim, Scotland would need to negotiate its own terms with the EU to ensure membership of an independent Scotland. There would also be serious questions about the division of maritime Exclusive Economic Zones, fishing rights and North Sea oil ownership. In addition, the prospect of Scottish independence from the UK would also be a disastrous scenario for the British Labour Party.

Why Britain won’t Brexit

The Leave/Remain referendum is not legally binding upon Cameron’s government; it is merely advisory as far as Parliament is concerned.

More importantly, Britain gave up its market sovereignty decades ago. More than 100,000 pieces of legislation make up Britain’s integration with the EU Single Internal Market (SIM). The SIM governs competition; public procurement; banking; finance; anti-trust; trade practices; technical, fiscal and physical barriers to trade; food and product labelling standards, and a whole host of other market issues.

In order to undo this melange of market rules would be akin to unscrambling an egg. To do so would occupy every waking hour the House of Commons possesses for the foreseeable future, merely to amend or repeal SIM legislation. But why would Britain want to revoke all the SIM compliance with the legislation it currently has in place?

But nothing can be certain where referenda are concerned. They involve what politicians fear most: democracy. Referenda ask voters to make decisive political choices; and they are inherently risky.

Remy Davison's Chair is funded by the EU Commission. He has had lunches and dinners with Boris Johnson, but these were over 20 years ago.

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