Here’s everything you need to know about 'Brexit'

By Rick Newman | Yahoo Finance – 6 hours ago

The UK is gone.

British voters surprised the world on Thursday by voting to leave the European Union, setting in motion an unpredictable sequence of events that have already destabilized financial markets and could cause years of uncertainty. How did this happen? Why now? And what next?

British citizens essentially voted on one basic question: Should the United Kingdom remain in the European Union, or leave?

If they had voted to stay, global markets would have breathed a sigh of relief and gone back to business as usual. But instead, *BR*its voted 51.8% to 48.2% to *EXIT* the EU — Brexit, get it? — causing the kind of uncertainty that makes markets manic.

The European Union is a group of 28 countries that have agreed, over time, to abide by certain rules that supercede each nation’s own rules and laws. This is mainly to facilitate trade and commerce in ways that make each signatory country better off. In principle, the EU supports “four freedoms”— the free flow of goods, services, workers and capital among all 28 countries. There’s no analog in the US because all of those things can already move unimpeded from state to state.

The EU is different from the eurozone, which is a group of 18 countries that have adopted the euro as their currency, including Germany, France, Spain and Italy. The UK does not use the euro, nor do other EU countries such as Sweden, Poland or Hungary. Nations can still benefit from membership in the EU while retaining their own currencies.

Rising immigration levels

European governance can be arcane, but the main reason for the Brexit vote will be familiar to many Americans: concern about immigration. EU rules allow any citizen of an EU country to live in any other EU country and enjoy most privileges of citizenship, including social services. In recent years, there’s been a sharp jump in the number of people coming to the UK from other EU nations, including newer entrants such as Romania and Bulgaria. Some native Brits feel immigrants are collecting an unfairly large share of welfare payments and child benefit payments — which has become a touchy political issue, much as it has here in the US.

While running for reelection in 2015, Prime Minister David Cameron vowed to cut the net inflow of people to the UK to fewer than 100,000 a year. Last year, however, that number hit 330,000. Cameron, who staunchly opposed Brexit, also made a campaign promise to hold a referendum on the matter, which is what happened on Thursday.

Cameron obviously misjudged the nationalist fervor simmering in the UK and the outcome of the vote. He announced his resignation following the results, saying the country needed "fresh leadership" to take it in the direction the people had chosen.

Polls suggested the vote would be close, but the results still stunned a lot of people. When Scottish citizens voted on whether to secede from the UK in 2014, many polls forecast a tossup and a few predicted Scottish secession. But Scots ended up voting 55% to 45% to remain part of the UK. Pollsters point out that voters tend to become more conservative, and side with the status quo, as voting on a controversial topic nears. It's surprising that so many Brits voted to upend that status quo.

How are markets reacting?

The results Thursday led to the worst-ever crash in the British pound against the US dollar, as Yahoo Finance's Sam Ro noted. European and Asian stock markets fell by 2% to 8%, and the Dow Jones Industrial Average plummeted more than 500 points on Friday morning after the opening, while the S&P was down 2.2% and the Nasdaq Composite was down 2.7% about an hour after the markets opened.

While UK voters have made their decision to Brexit clear, an actual departure from the EU will take a minimum of two years, with procedures worked out slowly. The impact on the US economy will likely be minimal, except for financial markets, which could stagger while investors try to sort out the implications. The dollar will probably strengthen as investors buy US securities as a hedge against European turbulence.

While the outlook for European stocks is dreary, US stocks could rebound.

“This kind of market shock does not rebound in one day, but maybe we end up getting a pop after the drop," stock watcher Sam Stovall of S&P Global Markets Intelligence told Yahoo Finance. Many investing firms advised their clients to remain cautious but look for buying opportunites as stocks and other assets fall in value. "Expect volatility," Wells Fargo, warned, but "stay invested."

Once out of the EU, the UK will no longer benefit from free-trade provisions among EU countries or with other nations governed by EU deals. That means it could either negotiate trade deals one-by-one with its European neighbors and other countries, including the US, or do without trade deals. That's what President Barack Obama was talking about when he said Britain would move to the "back of the line" if it left the EU.

There will also be strong pressure from some domestic industries, such as steel, to impose tariffs on imports, which will push up prices in the UK and invite other countries to retaliate on imports from the UK. And trade wars rarely make everybody better off.

London is a world hub for finance, and there will be immediate pressure on big European banks to move investment banking, trading operations and other activities out of the UK and into other countries fully integrated with the EU. This might actually benefit financial hubs such as New York, which could gain a competitive edge if Europe’s financial capital splinters into several smaller ones.

Other EU nations, which have their own anti-immigration political factions to contend with, will probably make Brexit painful for the UK.

“This will not be an amicable divorce,” Jacob Kirkegaard of the Peterson Institute for International Economic said at a recent conference. “The probability of punitive political actions by the rest of the EU is a very strong base case.”

It could become much harder for Brits to work and live legally in other parts of Europe, for instance. Brits who retire in sunny locales like Spain or Cyprus — the European equivalents of Florida or Arizona — might find they’re no longer able to receive government-provided healthcare in their new locales, a perk of EU membership.

The consequences of Brexit will land a lot harder on the UK than on the rest of the world, however.

“I have trouble fully understanding why some of the major economies think this is a systemic risk,” says Adam Posen of the Peterson Institute.

Even though UK voters have voted for a Brexit, banks, multinational companies and government regulators will have plenty of time to adjust. The Federal Reserve and other central banks will be able to intervene, if necessary, to keep markets stable.

Rick Newman’s latest book is Liberty for All: A Manifesto for Reclaiming Financial and Political Freedom. Follow him on Twitter: @rickjnewman.